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Operations &
Maintenance

Department of Defense
1977 Budget

Operations and Maintenance

Background

The O&M appropriations finance the basic housekeeping services for the Defense establishment. Included are pay for most DOD civilians, fuel, supplies, and contract services for all operating units, and maintenance costs for equipment and facilities.

Alternative Levels

O&M is showing very large growth from 1975 to 1977, despite the relatively stable nature of the force structure it supports. The "non-pay" area, where the major increases are occurring, is the only significant portion of Defense purchases which has not been granted an exception to A-11 policy on inflation. A-11 states that the budget year must be priced according to the prices prevailing at the time the submission is made (Fall, 1975). Interpretation of this policy by BRD would permit Defense to recognize the inflation that has occurred from the Fall of 1974 to the Fall of 1975 (7%) and project that much increase into 1977. In addition, the Presidential decision of last year providing for 1% per quarter real program growth applies to O&M, as well as to procurement accounts. The following table illustrates the impact of these allowances and shows the extent of the growth beyond these levels.

	<u>TOA (\$ Billions)</u>		<u>% Change</u>
	<u>1975</u>	<u>1977</u>	
Total O&M	26.2	33.7	+29%
Less Pay-Related	8.6	9.5	+10%
Non-Pay O&M	17.6	24.2	+38%
Fall-to-Fall Inflation		+1.2	+ 7%
1% per Quarter Growth		+1.76	+10%
Other Growth		+3.64	+21%



Summary of Issues

There are a number of program issues and "budget scrub" adjustments which can be made in the O&M area. The following table summarizes these issues and indicates the extent to which reductions are anticipated in the framework of the joint review. Issue papers are attached on each item.

	(\$ Billions)
	Total
	<u>Adjustments</u>
<u>Service Request</u>	
Budget Scrub (OSD adjustments in the joint review)	-.8
PCS moves	-.3
Real Property maintenance	-.2
MAC Airlift charter	*
Inventory levels	-.6
Travel	-.1
Energy Consumption	-.3
Civil Defense	-.1
Subtotal adjustments	-2.4
Other Issues (civilian personnel, commissaries, rate stabilization)	-1.1
Total adjustments	-3.5

* Under .05

Thus, another way of perceiving our issues is that, in a rough way, they account for most of the real growth in the Operations and Maintenance request.



Issue Paper
Department of Defense
1977 Budget
Permanent Change of Station Moves (PCS)

Statement of Issue

Can a series of revised policies be implemented to reduce personnel turbulence and PCS moves?

Background

Defense has requested almost \$1.8 B for transportation and per diem travel costs associated with 1,700,000 PCS moves in 1977. This amounts to 0.8 moves for each active military person. In addition, the services have requested an allowance of 97,300 in transient personnel (\$1.1 B) to offset military unit strength shortfalls due to PCS.

PCS moves are driven by force deployments, personnel turnover and military travel policies. Changing three current travel policies could significantly reduce the number of PCS moves required in 1977 and the outyears. These three policies are:

1. Plan to meet prescribed average overseas tour lengths.
2. Remove Hawaii and Alaska from consideration as overseas tours.
3. Implement a limited homebasing policy for personnel assigned to hardship overseas tours.

Alternatives

- #1. Maintain existing PCS policies. (Agency request)
- #2. Implement these policy changes gradually in 1977. (OMB recommendation)
- #3. Accelerate implementation of these revised policies in 1977. (Fiscal constraint level)



	TOA (\$ Millions)			
	1975	1976	1977	1978
Alternative #1.....	1,440	1,650	1,760	1,870
Alternative #2.....	1,440	1,616	1,518	1,606
Alternative #3.....	1,440	1,593	1,415	1,525

Analysis

1. Prescribed Overseas Tour Lengths

DOD currently prescribes tour lengths in all overseas areas. The Navy and Marine Corps plan to meet or exceed their prescribed average overseas tour lengths in 1977, while the Army and Air Force plan to meet only 77 percent and 86 percent of their respective prescribed average overseas tour lengths. These planned average overseas tour lengths for 1977 are also less than the actual tour lengths achieved during 1975. This is inconsistent with past trends indicating an increase in average overseas tour lengths for the Army. Moreover, a Defense audit study on overseas tour lengths in 1975 indicates that the actual Air Force overseas tour lengths tend to meet or exceed prescribed tour lengths.

2. Designate Hawaii and Alaska Nonhardship Tours as Domestic Assignments

Currently all the military services consider tours in Hawaii and Alaska as overseas tours and therefore treat them differently from tours in the other 48 States (the CONUS). This generates additional moves because personnel completing tours in Hawaii/Alaska must be returned to the CONUS rather than being redeployed to a foreign overseas area. Likewise arrivals to Hawaii/Alaska must come from the CONUS, since personnel departing non-U.S. overseas areas cannot be directly assigned to Hawaii/Alaska tours. The Marine Corps has the only exception to this general policy, since they do send some Hawaii personnel directly to Okinawa and return some Okinawa personnel to Hawaii.

3. Implement a Limited Homebasing Policy

Public law permits officers and entitled enlisted personnel serving an unaccompanied overseas tour to move their dependents to any place within CONUS at their selection. These moves are called designated point moves. Two Defense policies appear to cause the number of these moves to be greater than necessary:

(1) Dependents occupying Government quarters must move when the sponsor is reassigned.

(2) Advance notification of the assignment following a short (12-13 months) overseas hardship tour is not provided prior to departure for overseas.



Eliminating these two policies would save PCS resources by reducing the number of designated point moves and would improve morale by reducing the disruption in family life created by frequent movement. Additional savings would accrue, if the advanced assignment provided for a return to the military members' current location, his current "homebase."

The Navy currently permits dependents whose sponsors serve hardship overseas tours to remain in quarters and also attempts to return the sponsor to his "homebase." Prior notification, however, is not provided. The Marine Corps is exploring the possibility of "homebasing" and concurs with the housing policy change. The Army is also testing the feasibility of providing advanced notification and "homebasing," but contends that the housing policy change will significantly increase waiting time for CONUS housing and thereby create morale problems.

Table 1 shows the impact of implementing those policy changes under two alternatives.

Alternative 2 provides a gradual implementation of these changes and Alternative 3 accelerates the implementation of these policies.

Under the accelerated alternative (Alternative 3):

- a. The Army would be required to meet its prescribed overseas tour lengths rather than only 90 percent in 1977.
- b. Alaska/Hawaii would be the same as CONUS tours for all personnel after January 1, 1976, rather than only for those assigned to Hawaii/Alaska after that date.
- c. The homebasing policy would continue to apply to one-third of the personnel assigned to overseas hardship tours.

Table 1
(\$ in Millions)

	FY 1977		FY 1978	
	<u>Alternative 2</u>	<u>Alternative 3</u>	<u>Alternative 2</u>	<u>Alternative 3</u>
1. Overseas Tours	-150	-206	-150	-206
2. Hawaii/Alaska	-46	-93	-68	-93
3. Homebasing	-46	-46	-46	-46
Total	-242	-345	-264	-345



Finally, reducing the number of PCS moves would permit a reduction in the number of transient military personnel without in any way affecting unit strength or capabilities.

Agency Request: Alternative #1. The department believes existing policies should be maintained pending their detailed review of the feasibility of implementing a "homebasing" policy and the morale implications from changing the overseas status of Hawaii/Alaska tours.

OMB Recommendation: Alternative #2. Implementing these changes moderately in 1977 should be feasible; the morale impact from a change in Hawaii/Alaska tour status depends upon the attractiveness of those tours relative to other U.S. tours as perceived by military personnel.



Issue Paper
 Department of Defense
 1977 Budget
 Real Property Maintenance Activities

Statement of Issue

Can funding for Operation and Maintenance of DOD real property be reduced while still providing facilities adequate to accomplish the military missions?

Background

Funding for operation and maintenance of real property in DOD, exclusive of family housing, is exceeding a \$4 billion annual level. The Services, however, maintain that these funds are inadequate to do the essential maintenance and repair, and that the resulting unfunded requirement, referred to as the Backlog of Maintenance and Repair (BMAR), has grown to the point where mission capability is affected. OSD initiated an audit to determine the validity of the backlog while allowing the Services to begin funding to reduce it. The 1977 funding request represents initiation of the effort to bring the backlog of maintenance and repair work to what the Services feel is a manageable level.

Alternatives

- #1. Approve the Defense request (\$4,289 million), which provides for decreasing the backlog of maintenance significantly and assumes a \$100 million reduction below the service requests. (Agency request)
- #2. Reduce the Agency request by \$222 million in 1977 through application of cost saving techniques and allowing the BMAR to remain constant. (OMB recommendation)



	<u>TOA (\$ Millions)</u>			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1	3,624	4,002	4,289	--
Alternative #2	3,624	4,002	4,067	-252

Analysis

The following items have been analyzed and identified as reductions with the extent to which Defense can be expected to concur indicated.

✓ a. Use of military construction units - The 59 military construction units in all four services can be used to accomplish at least \$70 million in real property maintenance and repair annually. There is no law which precludes their use for such type work and it can be advantageously substituted for certain aspects of the construction unit's training. Accomplishing \$70 million of RPM work with these units would require only about 20% of their time, leaving the balance available for training activities. Union opposition can be expected in some parts of the country. Defense staff reaction will be mixed to favorable.

b. Reduction of Air Force military personnel - The Air Force utilizes military personnel to perform RPM functions to a far greater extent than the other services, as the following table indicates:

1977 Military End Strength

Army	1,570
Navy	3,472
Marine Corps	613
Air Force	<u>27,002</u>
Total	32,657

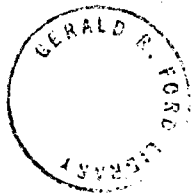
✓ Use of military personnel is much more expensive than either government civilian or contractor personnel. The Air Force justification for the use of military personnel has been analyzed, and we estimate that a conversion of 11,786 military workyears to contract is feasible. Military end strength reductions related to this issue total approximately 14,000 due to the addition of supporting "tail" positions which always accompany a reduction in military personnel. Savings would be \$30 million in 1977 and \$60 million in 1978. This is a net savings after the cost of adding contract labor is computed. Defense reaction to this item will probably be favorable.

c. Backlog of Maintenance and Repair - The proposed funding of \$222 million to work down the backlog of maintenance and repair projects can be deferred. Adequate funding is being provided on an annual basis to provide facilities to accomplish the military missions. In addition, results of the Defense directed audits of the Navy and Army have cast doubt as to the validity of over 80% of the backlog. Defense staff reaction will vary from mild support to strong opposition. It is anticipated that OSD will reduce this request by \$100 million in the budget scrub. Further reductions of \$122 million are feasible.



Agency Request: Alternative #1. Last year the Secretary requested special information on the subject and indicated skepticism. However, we anticipate strong opposition from certain staff elements. The Services will oppose all alternatives to their request to varying degrees on the basis that any reduced funding will reduce their readiness.

→ OMB Recommendation: Alternative #2. This provides adequate funding for operation and maintenance of DOD real property in 1977. There is no evidence to support assertions that readiness will be degraded as a result of this adjustment.



Issue Paper
Department of Defense
1977 Budget
Defense Energy Consumption

63

Statement of Issue

Can Defense consumption of petroleum products for operating forces be reduced without degradation of readiness?

Background

Defense consumes over \$3 billion annually in fuel oil to operate its forces. Fuel costs for air, sea and ground operations for the Department of Defense continue to spiral upward. Some efforts have been undertaken to reduce consumption of petroleum and thereby absorb a portion of the huge price increase which has occurred since 1974. For example, a large investment program for aircraft simulators has been undertaken to permit lower flying hours without hurting readiness. Notwithstanding these efforts, petroleum costs to the Department will increase 27% for the period of 1975 through 1977. During this two-year period, flying hours decrease 2%, ships' steaming hours increase 3.6% and ground operations increase by 2.3%.

A summary of annual operating rates and fuel consumption is shown below:

	<u>Total Flying Hours</u>	<u>Total Steaming Hours</u>	<u>Total BBL's Consumed</u>
1975	8,500,000	849,000	182,000,000
1976	8,200,000	864,000	180,000,000
1977	8,300,000	880,000	182,000,000

Alternatives

#1. Reflects planned military air, sea, and ground operations of the military services. (Agency request)

#2. Reduces flying hours through increased use of smaller aircraft and flight simulators. (OMB recommendation)



#3. All of the reductions in Alternative #2 plus a further reduction of 2.5% in the tempo of operations. (Fiscal constraint level)

	TOA (\$ Millions)			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1	2,770	3,123	3,354	3,520
Alternative #2	2,770	3,123	3,207	3,362
Alternative #3	2,770	3,123	3,127	3,282

Analysis

Air, sea and ground operations within the Department will decrease less than 1 percent from 1975 through 1977, while overall petroleum costs will rise more than 27 percent. Several opportunities to reduce fuel consumption are possible:

Navy and Air Force are presently utilizing large cargo aircraft to provide experience to new pilots. In lieu of the C-130 and C-141 aircraft presently used for this purpose, smaller aircraft (T-37 and T-38) can provide a large portion of the pilot training curricula. There would be no reduction in flying hours, but petroleum consumption would be reduced by 2.2 million barrels which would save \$50 million.

The Air Force is testing a reduced flying hour program for the B-52 strategic bomber which is the largest consumer of fuel per flying hour in the inventory. The new program stresses greater use of ground based training aids and fewer flying hours. No problems have been identified to date. Application of this new program to the entire B-52 fleet would reduce 2.2 million barrels of petroleum consumption and save \$50 million. Similar reliance by the Navy on training aids could reduce petroleum consumption by 1.0 million barrels and \$24 million.

Reserve force flying hours are projected to rise from 344,000 in 1975 to 391,000 in 1977. If the flying hour program were held to the 1975 level, a decrease of 1.2 million barrels of petroleum and \$23 million would result.



Significant savings can occur by minor reductions in tempo of operations which we believe will not effect military readiness. A 2.5% reduction in flying and steaming hours would result in additional savings of 4.5 million barrels and \$30 million.

Agency Request: Alternative #1. Defense would oppose any reduction in operations tempo. Their objection would be based on an assumption that the reduction would decrease military readiness to an unacceptable condition. They would have less objection to increasing use of training aids.

→ OMB Recommendation: Alternative #2. Offset a greater portion of the fuel price increase through smaller aircraft and substitution of flight simulators.



Issue Paper
Department of Defense
1977 Budget
Inventory Levels

Statement of Issue

Can inventories of items procured through stock funds be reduced from planned levels?

Background

Inventories of supplies are maintained for issue to military customers on demand and to provide stocks to cover time lapsing between ordering and receipt from production, for protection against fluctuation in demands and receipts, and for mobilization purposes. As demands grow, the absolute size of backup stocks also grows. The converse should be true when customer demands decrease. Inventories of these items are projected to increase by \$500 M from 1976 to 1977.

Alternatives

- #1. Provide for restoration of fuel stocks drawn down in 1975 and other increases for greater protection against stock-outs (Agency request).
- #2. Maintain current stock levels. Do not increase fuel above the 1975 level. Allow increases for new items entering the supply system and for cost increases experienced (OMB recommendation).

2

	<u>Outlays (\$ millions)^{1/}</u>			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1	--	240	500	500
Alternative #2	--	140	150	150

^{1/} Appropriations are generally not required in the revolving funds; however, excesses generated through sale of inventory without replacement may provide funds for transfer to offset appropriation requests elsewhere.



Analysis

A portion of the inventory increase relates to fuel drawn down in 1975 for economy measures. If the decision were prudent then, it is prudent today (\$150 M). (Defense consumes under peacetime operations less than 2% of the U. S. fuel consumption.)

Many of the items stocked are commercial type and although considered critical to Defense requirements, they can, in emergencies, be obtained from the civilian sector (e.g., dress shoes, aspirin, radio tubes and transistors). Again Defense consumption of these items is only a small portion of the total production. Even for military technical repair parts, increasing stock levels across-the-board insures only that long supply stocks will increase since many items have adequate stocks. (More than two-thirds of all the orders are filled immediately by the supply depots.) In many instances, the reason for stock-outs is contractor backlog, strikes, etc., and no matter how large the order, delivery is limited by production capacity (e.g., forgings, castings). Two basic questions are: How long a pipeline should be funded and how much mobilization reserve stocks should we buy.

Agency Request: Alternative #1. Defense would oppose further reductions, particularly of fuel stocks as possibly impairing readiness levels.

OMB Recommendation: Alternative #2. We believe that inventory levels are generally adequate and across-the-board increases are not required.



Issue Paper
Department of Defense
1977 Budget
Civil Defense

Statement of Issue

Should the scope of the Civil Defense program be redefined?

Background

The Defense Civil Preparedness Agency (DCPA) within the Department of Defense has responsibility for the federal civil defense program whose mission is to prepare for the protection of the civilian population in the event of a nuclear attack. Activities of the agency include developing and operating a nationwide warning and detection system, identifying radioactive fallout shelters, providing for civil defense training and education, and assisting state and local governments in strengthening emergency operating capabilities.

About 65% of the DCPA program is provided in the form of grants and contracts to State and local governments. While all use of DCPA funds must be related to preparing for a nuclear disaster, State and local governments encourage secondary use of preparedness funds for natural disaster contingencies. They look upon the DCPA as the major federal source of funding for such purposes, and for supporting their own staff and institutional base.

Funding for DCPA activities has been about level over the past several years in the \$80-85 million range. The DCPA request for 1977 is \$123 million, reflecting increases for communication and warning systems support, and planning for a city evacuation program.

Alternatives

- #1. Continue DCPA role of broad support of activities relating to both natural and nuclear preparedness. (Agency request)
- #2. Redefine scope of DCPA program to limit support to functions narrowly related to nuclear disaster preparedness. (OMB recommendation)



	TOA (\$ Millions)			
	1975	1976	1977	1978
Alternative #1	82	87	123	130
Personnel end strength	653	653	653	653
Alternative #2	82	87	40	42
Personnel end strength	653	653	300	300

Analysis

The alternative proposes that DCPA should limit its role to Defense peculiar nuclear disaster requirements, shifting more responsibility for the funding of disaster preparedness to the States and to agencies responsible for natural disaster preparedness, such as the Federal Disaster Assistance Agency and the Federal Preparedness Agency. DCPA would reduce and/or eliminate such activities as: salary support of personnel in State and local offices who are being utilized primarily for natural disaster preparedness; procurement of emergency vehicles and equipment which are used mainly for normal community rescue operations; and construction funds for disaster emergency centers in areas which have a low probability of being affected by a nuclear strike. DCPA would continue to support functions which relate primarily to nuclear preparedness. These would include the national communication and warning systems, preparation and publication of material relating to nuclear disaster preparedness, procurement and maintenance of radiological monitors to measure the effects of radioactive contamination, and planning related to the city evacuation program.

Unless accompanied by compensating increases in other Federal preparedness agencies, a significant reduction in DCPA funding would raise strong political opposition since virtually every State participates in the program.

Agency Request: Alternative #1. Defense believes that neither the States nor other Federal agencies can be depended upon to provide a common base upon which DCPA can build a nuclear preparedness program. Defense would also point out that the 1972 NSDM #184 established a floor on the level of DCPA funding and recognized the dual use of DCPA resources for both natural and nuclear preparedness.

OMB Recommendation: Alternative #2. Defense should fund only those functions closely related to nuclear preparedness. States and other agencies should have primary responsibility for providing funds for natural disaster preparedness. Consideration should be given to providing increased funding for appropriate Federal agencies, including FDAA and FPA.



Issue Paper
 Department of Defense
 1977 Budget
 Travel

Statement of Issue

Should Defense travel funding be reduced?

Background

Current estimates for travel funding show an increase of \$12 million from 1976 to 1977, and \$128 million from 1975 to 1977. This covers travel for administration, operations, training and civilian permanent change of station (PCS) moves. It does not include active military PCS, training or unit moves. Since 1977 estimates do not contemplate an increase in per diem or mileage rates, all growth can be attributed to expanded travel plans.

Alternatives

- #1. Provide sizable increases in 1976 and 1977 over 1975 actual use (Agency request)
- #2. Reduce 1977 Defense travel to a level 5% below the actual 1975 travel level, adjusted for per diem increases. (OMB recommendation)



	<u>TOA (\$ Millions)</u>			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1	502	618	630	630
Alternative #2	502	536	536	536

Analysis

Program increases since 1975 are generally related to administrative type travel. Since reductions in civilian personnel are contemplated, it is unrealistic to assume that administrative travel should be increased--rather a decrease in requirements should be expected. Some travel could be deferred or shortened and that deferral would not affect readiness. For example, travel for meetings and conferences could be reduced. A 5% reduction in travel below actual 1975 experience would save \$94 million in 1977.

In the past, Congress has suggested and, in fact, legislated curtailment of travel. They would undoubtedly support reductions in this area. The Defense Department would oppose reductions, claiming 1975 was an austere year for travel, and would attempt to reverse such a decision.

Agency Request: Alternative #1. Defense claims the travel level is needed to accomplish its mission.

OMB Recommendation: Alternative #2. This would reduce travel by 5% below the 1975 level adjusted for legislated increases in per diem costs.





Issue Paper
 Department of Defense
 1977 Budget
 MAC Charter Concept

Statement of Issue

Should the Military Airlift Command (MAC) reduce commercial aircraft charter flights and utilize unused commercial capacity at reduced rates on scheduled airlines?

Background

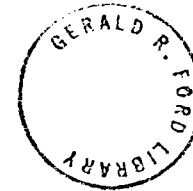
Annually, Defense airlifts over 1.1 million passengers to overseas locations from military airfields. Almost all fly on commercially chartered aircraft to overseas areas serviced by U. S. flag scheduled airlines. Scheduled flag carriers are willing to use their unsubscribed seating at less than charter seat cost for military passengers since the incremental cost of adding a few extra passengers is insignificant.

Alternatives

- #1. Continue to provide commercial charter service from military airfields for military passengers, retirees and their dependents. (Agency request)
- #2. Use block seat purchases on commercial scheduled airlines to move passengers to and from overseas locations. (OMB recommendation)

	TOA (\$ Millions)			
	1975	1976	1977	1978
Alternative #1	21	23	26	24
Alternative #2	21	23	13	13





Analysis

In recent years, U. S. flag carriers have experienced decreasing load factors on their overseas flights. Commercial flights are currently flying half empty to the same locations for which Defense is chartering dedicated flights for military personnel and their dependents. This results in an unnecessary expense and waste of fuel. Four engine jets consume 40,000 gallons of fuel on round trip from New York to Europe.

Recognizing this situation the CAB granted a limited "Fuel Crisis" waiver thru June 1976 to permit two scheduled airlines to offer less than charter rates to the military for block seat purchases. During this waiver period, there has been no problem with passenger movement. Defense would like to continue use of block seat procurement but cannot without a waiver or change in policy by the CAB. They also cannot pursue the waiver for fear of being cited for favoritism to scheduled airlines.

The Interagency Steering Committee which is reviewing the 1970 United States International aviation policy has endorsed the part charter concept as a means to achieve fuller utilization of aircraft.

Extension of the waiver, however, is not now contemplated. The major concern of the CAB appears to be allocation of business to all scheduled and non-scheduled airlines. One possible resolution of the problem would be to allow scheduled airlines to carry recurring passenger loads and to contract with the non-scheduled airlines for special charter flights.

In addition to the fuel savings, cost reductions are possible by:

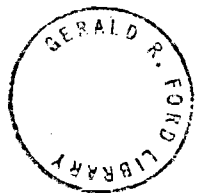
- eliminating military terminal personnel and facilities, including possible termination of MAC operations at McGuire AFB, New Jersey.
- eliminating travel costs between commercial airports and the military airport which often require overnight stays at \$35 per day.
- savings of 10% per passenger ticket thru block seat procurement.

Strong opposition to this proposal can be expected from service personnel (both active and retired) since this would virtually eliminate the free transoceanic space available travel that they now enjoy. Unless an equitable distribution of work is assured, opposition can also be expected from the non-scheduled carriers participating in the CRAF.

A decision by the CAB follows consideration of all parties' views and opposition by the non-scheduled airlines could result in disapproval.

Agency Request: Alternative #1. The budget request assumes there will be no block seat purchases in 1977.

OMB Recommendation: Alternative #2. Assume CAB approval to extend the block purchase plan into 1977 and expand its coverage to all MAC routes. Strong Presidential support will probably be required. This cannot be unilaterally implemented by Defense.



Issue Paper
 Department of Defense
 1977 Budget
 Rate Stabilization

Statement of Issue

Should rates charged DOD customers for supplies and services furnished by revolving fund activities be fixed in advance each year to include an allowance for inflation?

Background

Most consumable supplies for defense users are purchased centrally through revolving funds--called stock funds--and paid for by the customer, when issued, out of annual operation and maintenance appropriations. Similarly, major overhaul of ships, aircraft and certain other services are provided by industrial type activities financed through revolving funds--called industrial funds--and paid for by the various customers out of annual operation and maintenance appropriations. These revolving funds have, in the past, operated as a business under a "break-even" procedure, adjusting their prices, as experienced, to recover allowable costs.

Alternatives

- #1. Adjust prices to include an allowance for future inflation. This would permit the customer Operation and Maintenance appropriations to plan and budget for higher costs based upon anticipated inflation in the coming year.(Agency request)
- #2. Do not permit customer accounts to anticipate any inflation in the coming year in establishing their budget levels.(OMB recommendation)

	TOA (\$ millions)			
	1975	1976	1977	1978
Alternative #1	-	+350	+500	+500
Alternative #2	-	-0-	-0-	-0-



Analysis

The intent behind the revolving fund system was to create an environment similar to that of private industry--the cost of operations to be recouped when goods and services were sold to customers. The Defense Department now proposes to fix prices and rates at an inflated level with no changes until the following fiscal year. At that time a new rate would be established to recover any past losses which might have occurred and to anticipate future inflation increases. Private industry cannot operate this way because of the presence of competition. Despite the fact that the Defense revolving funds are monopolistic, the principle of current pricing has been the expressed will of Congress. Another argument against rate stabilization is that, to the extent that it incorporates anticipated inflation in its prices, it is in violation of the A-11 prohibition against budgeting for anticipated inflation in annual operating appropriations.

In favor of the proposal, two points can be made. First, planning in the industrial activities is made extremely difficult with significant resultant inefficiencies. This is due to extreme changes in workload generated by price changes which have to be absorbed by customers with a fixed amount to spend. Thus, for example, a naval shipyard may plan to employ enough labor to accomplish 20 ship overhauls, but when ensuing inflation occurs, perhaps only 15 overhauls can be funded. Because of the rigidity of Civil Service regulations, it is not possible to bring about rapid drops in employment levels and inefficiencies result.

The second point in favor of the proposal is that there are instances where the A-11 prohibition against budgeting for anticipated inflation has been broken under very similar conditions. The Standard Level User Charges (SLUC) applied by GSA, the GSA General Supply Fund, and Medicare all include in their rates some anticipation of inflation.

Agency Request: Alternative #1. Defense argues that given existing exceptions and the resulting inefficiencies, rate stabilization, including anticipated inflation, should be approved.

OMB Recommendation: Alternative #2. We do not object to rate stabilization per se. However, inclusion of anticipated inflation in the budget for an operating appropriation violates the rules of A-11.



Construction &
Family Housing

DEPARTMENT OF DEFENSE
1977 Budget
Construction and Family Housing

Background

The construction/family housing area shows a substantial growth pattern in recent years as the following table indicates.

	TOA (\$ millions)			
	1970	1975	Request	1977 OMB Recommendation
Military Construction (less ASTF)	1015	1858	2512	1708
ASTF (Aeropropulsion Systems Test Facility)	--	--	--	437
Family Housing	581	1164	1449	1129

With the exception of ASTF, which is a single 1977 construction project, some background is in order concerning the forces which have been operating on both the military construction and family housing programs in recent years.

A number of significant program initiatives have impacted on the military construction program since 1970. These initiatives have originated in part outside DOD. Three programs, in particular, water pollution, air pollution and energy conservation have become significant elements of the Military Construction Program in recent years. In addition to these federally driven programs, Defense initiatives for the achievement of an all-volunteer Army, the improvement of nuclear weapons storage facilities, a program to provide shelter protection for all tactical aircraft in Europe and the new facility program in support of the TRIDENT project have all generated significant requirements for construction projects.

In family housing there have been, since 1970, significant changes in the criteria applied by DOD in assessing the eligibility for family housing and in determining qualitative standards for military family quarters. In 1970, it was Government policy to provide family housing quarters only to married officers and non-commissioned officers. In 1973, that criteria was reevaluated and changed to include all married military personnel. This generated a significant deficit of family housing units, despite the fact that military manpower levels have been declining in recent years. Construction of units to meet these deficits has now been virtually completed but significant cost increases are now showing up in the O&M area where these new units must be operated and maintained. Several years ago, DOD also



revised the criteria by which family housing units were judged to be adequate or inadequate. The measure used was comparison with the type and size house being constructed by builders on the open market. This has resulted in a significant program of improvements to existing family housing units. This program is addressed specifically in the family housing issue.

Alternative Level

The OMB recommendation recognizes and continues the initiatives and programs described above, with the exception of the family housing improvement program, which we consider unwarranted, to the extent requested.

Summary of Issues

The following table shows the adjustments made in the OMB recommendation by category of facility. Impacts on 1978 are shown, but it is assumed that an offsetting amount of 1978 construction can be deferred to future years.

	TOA (\$ millions)		1978 Impact
	1977 Agency Request	OMB Adjustment	
<u>Military Construction</u>	2512	-804	(+499)
Program/Force Related	330	- 65	(+120)
Operating Facilities	762	-249	(+196)
Pollution and Energy	424	- 74	(+ 11)
Medical Facilities	313	-210	(+ 60)
Guard & Reserve	208	- 60	(--)
Other	475	-146	(+112)
<u>ASTF</u>			
Agency Request	--	--	(+437)
OMB Recommendation	--	+437	(--)



	<u>Agency Request</u>	<u>OMB Adjustment</u>	<u>1978 Impact</u>
<u>Family Housing</u>	1449	-320	(--)
Operations & Maintenance	1116	-130	(--)
Leases	116	- 18	(--)
New Construction	126	- 91	(--)
Improvements	91	- 81	(--)
 TOTAL, Construction/Family Housing	 3961	 -742	 (+499)



Issue Paper
 Department of Defense
 1977 Budget
 Military Construction

Statement of Issue

To what extent can the Military Construction budget be reduced without adverse impact on military capabilities?

Background

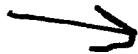
The budget submission for Military Construction contains about 2,000 individual projects. While the program itself shows a year-to-year trend consistent with the other elements of the Defense budget, it should be recognized that, with certain minor exceptions, the projects which make up any single year's construction program are fully funded single items which bear no direct relation to either prior year or future year funding.

Alternatives

#1. The services initially requested \$2,831 million in 1977 and \$3,071 million in 1978. OSD will probably recommend adjustments of \$-319 million in 1977 and \$-200 million in 1978 for a revised estimate of \$2512 million in 1977 and \$2871 in 1978. (Agency request)

#2. In addition to the amounts adjusted by OSD, further adjustments of \$-859 million in 1977 are feasible on the basis that certain projects, while desirable, are either not essential or have not demonstrated a satisfactory economic justification. Approximately \$500 million of this adjustment would probably have to be deferred to 1978. Although we have not examined 1978 in the same detail as 1977, it can be assumed that the \$500 million can be offset by further deferrals from 1978 to subsequent years. (OMB recommendation)

	<u>TOA (\$ Millions)</u>			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1	1858	2300	2512	2871
Alternative #2	1858	2300	1708	2671
78 Impact			(-499)	(+499)



Analysis

The construction program has been analyzed by using the following definitions:

Deletable - Projects deleted under this definition are considered desirable, but not essential to basic Defense mission requirements.

Deferrable - Projects adjusted under this definition are considered deferrable from 1977, but will probably have to be accomplished in the future.

The following table illustrates our analysis of the 1977 construction program. While attempts have been made to be as objective as possible, there are no firm criteria for this type of analysis and the results must be regarded as subjective, to a large extent.

	1977 Request	Adjustments	
		Deletable	Deferrable
1. <u>Operating Facilities</u> Normal Military Housekeeping and Operational Construction	762	- 53	-196
2. <u>Pollution and Energy</u> Projects governed by special Federal policies and direct- ives originating outside DOD (i.e., OMB Cir. A-106)	424	- 63	- 11
3. <u>Medical Facilities</u> Related to all Defense Medical Programs	313	-150	- 60
4. <u>Guard and Reserve</u> Facilities for all Reserve components (Politically sensitive)	208	- 60	--



	1977 Request	Adjustments	
		Deletable	Deferrable
5. <u>Program/Force Related</u> Facilities tied to major procurement programs or force initiatives	330	--	-65
6. <u>Other</u> Miscellaneous utility construction, land acquisition, planning funds, etc.	475	- 34	-112

Agency Request: Alternative #1. The services will defend the construction program requested on the basis that it is necessary to provide facilities for mission accomplishment and to upgrade a small portion of the deteriorating facilities at military installations around the world.

OMB Recommendation: Alternative #2. We believe the 1977 program can be reduced by about \$859 million, without impact on major Defense programs.



Issue ar
 Department of Defense
 1977 Budget
 Aeropropulsion Systems Test Facility

Statement of Issue

Should funding be provided in 1977 to construct an Aeropropulsion Systems Test Facility (ASTF)?

Background

The proposed ASTF at Arnold Engineering Research and Development Center in Tennessee would provide by 1983 a capability for testing new generations of high-performance turbine engines in environments similar to those experienced in actual flight. This includes testing of engines, with intake and adjacent structures at various angles in relation to air flow. Current facilities permit engine testing only in isolation from surrounding aircraft structure and, hence, do not provide direct information on possible interface and integration problems. Defense claims that the new facility would avoid costly flight testing and the need for post-flight engine and structural modifications. The new test facility would be used for both military and commercial engine development. Total costs for construction of an entirely new facility are estimated to be \$437 million.

Alternatives

#1. The services initially requested funding for this project in 1977. OMB agrees that ASTF should be funded, if possible, in 1977. (OMB recommendation)

#2. Defer for reconsideration in the FY 1978 budget. The Deputy Secretary has already approved this course of action. (Agency request and fiscal constraint level)

	TOA (\$Millions)									
	1977		1978		1979		1980		1981	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Alternative #1	437	60	--	105	--	104	--	110	--	58
Alternative #2	--	--	437	60	--	105	--	104	--	110



Analysis

The requirement for this facility is based on the need for full-sized wind tunnels as a basic tool in the development of turbine engines. While research on engine technology is NASA's responsibility,

the actual development of high performance engines is an Air Force responsibility, since it is historically the military (fighter aircraft) requirement that pushes the existing state-of-the-art. The only way to develop a new turbine engine is to build it full-size, test it in a wind tunnel, correct the performance discrepancies found, test it again and repeat the process until the engine will perform to specifications.

Existing wind tunnels in NASA and DOD were originally constructed in the immediate post World War II period. At that time, it was felt that all that was necessary for an effective test was to direct the flow of air into the front end of the engine at the appropriate speed. We have since learned that the interaction of the engine, the engine inlet (as large or larger than the engine itself), and even the surrounding portions of the aircraft are all critical to an accurate prediction of engine performance. Existing facilities simply cannot handle such simulations.

As a result, engines now being developed can only be tested in small segments of their potential flight regimes. This results in overly-conservative designs and in the possibility of engine defects being discovered during the flight test phase of the program. The ASTF would permit full coverage of all potential engine flight regimes up to the limits of turbine engine technology and would permit ground testing in areas which can now only be tested in flight.

Engine problems in an aircraft development program are extremely costly in terms of schedule slippage and cost overruns. DOD contends that the avoidance of one major engine-related problem in a large aircraft development program would probably amortize the cost of this facility. NSD staff agree with this assessment.

→ OMB Recommendation: Alternative #1. OSD (DDR&E) is the major proponent for this facility, primarily on the basis of permitting bolder design of engines in the future. We support inclusion of ASTF primarily on the basis of its potential for reducing cost overruns in future development programs.

Agency Request: Alternative #2. This is a new initiative which cannot be justified in support of any current mission requirement or approved program. Therefore, despite its desirability, it must be considered deferrable under stringent economic conditions. The Deputy Secretary has made this decision, at present, although it will be appealed by DDR&E.



Issue er
Department of Defense
1977 Budget
Family Housing

Statement of Issue

Should the Defense Family Housing program be reduced?

Background

The Defense Family Housing program provides funds for operation and maintenance of nearly 400,000 houses, for leasing nearly 25,000 units, and for the construction of new housing.

Alternatives

#1. Provide a family housing program of \$1449 million in 1977. This would include 24,753 leases and construction of 2667 new units. (Agency request)

#2. Provide \$1129 million for family housing in 1977. This would include 22,418 leases and construction of 894 new units. (OMB recommendation)

	<u>TOA (\$ Millions)</u>			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1	1164	1279	1449	1516
Alternative #2	1164	1279	1129	1187



Analysis

Operations and Maintenance: (Request \$1116 million in FY 1977) This program has been analyzed by: (1) recognizing the inflation that has occurred from the Fall of 1974 to the Fall of 1975 (7%) and providing for that much increase in 1977 and 1978 over the 1975 base and, (2) providing for 1% per quarter program growth through the end of 1978. The Defense request is substantially above the resulting level and can be reduced by \$130 million in 1977. The services argue these increases are needed because of rising utility rates, to reduce maintenance backlogs, and to provide financing flexibility.

Leasing: (Request \$116 million in 1977) Historically, the Army has had about a 5,000 lease short-fall in Germany because of resistance of the Germans to lease. Rephasing the German lease program to

recognize this reluctance and recognizing that the public sector can provide adequate housing in many domestic areas, the request can be reduced by \$18 million in 1977.

New Construction: (Request \$126 million in 1977) The services are requesting construction of 2,667 new houses in FY 1977 and 3,961 units in FY 1978. The services assert these houses are required because of installation mission changes; because local communities cannot provide adequate, sufficient, or economical housing, and because of remoteness of foreign installations. Review of the requested construction projects indicate that local communities can provide support. For example, New Orleans with over 1.5 million people has sufficient housing to negate a 200-unit project. Mission changes at Fort Polk, Louisiana and at Bangor, Washington (TRIDENT) would require funding for 894 units in FY 1977 and 1058 units in FY 1978. Allowing for these projects, the service request can be reduced by 1773 units in 1977 and 2903 units in 1978. Savings would be \$91 million in 1977 and \$128 million in 1978.

Improvements: (Request \$91 million in FY 1977) The types of projects include: modernizing kitchens with dishwashers, disposals and cabinet space; modernizing bathrooms; adding bathrooms, bedrooms, family rooms, porches, carports, lanais, patios; enlarging patios, closets; increasing storage space; providing privacy screening; improving playgrounds; adding skylights; soundproofing; adding entry canopies; central air conditioning; painting; adding utility space; adding fire protection; adding sunshades; and rearranging bedrooms. On some units total improvements exceed \$20,000. The services justify these programs to increase unit life, to improve morale, and to bring housing up to comparable industry construction standards.

The OMB alternative would limit improvements to: increasing unit life, repair of major faults, improving safety, and replacement of non-functional features. The alternative challenges the assertion that these improvements are necessary because: (1) the existence of family housing waiting lists at most installations implies that military personnel desire to live in the presently configured quarters without these added improvements; (2) as presently constructed, the average difference between DOD estimated housing fair market rental and forfeited BAQ exceeds \$1,300. To the extent these improvements are made, the difference would increase, thus, providing a further subsidy for married military personnel occupying family housing. OMB recommendation would delete \$81 million.

Congress has been sympathetic to the housing program and has often provided funds above the amount requested.



Agency Request: Alternative #1. Provide a family housing program as follows:

	1977		1978	
	<u>Units</u>	<u>TOA</u>	<u>Units</u>	<u>TOA</u>
O&M (existing units)	n/a	\$1116	n/a	\$1139
Leases	24,753	116	20,624	82
New Construction	2,667	126	3,961	178
Improvements	n/a	91	n/a	117



OMB Recommendation: Alternative #2. Provide a family housing program as follows:

	1977		1978	
	<u>Units</u>	<u>TOA</u>	<u>Units</u>	<u>TOA</u>
O&M	n/a	\$ 986	n/a	\$1037
Leases	22,418	98	22,024	90
New Construction	894	35	1,058	50
Improvements	n/a	10	n/a	10



DEPARTMENT OF DEFENSE
1977 Budget
Investment Overview

88

Defense request and alternative levels

The 1977 Defense request for research, development and procurement of new systems and equipment totals \$41.4 B, an increase of \$11 B or 35% above the estimated 1976 level and 60% above the 1975 level. This increase provides for large growth in all categories of defense modernization. The recommended alternative provides an overall increase of more than 20%, continuing to allow real growth in all areas. The alternative makes no adjustments in the Defense request for strategic forces modernization and recommends more moderate but still significant increases for tactical systems and non-major systems procurement.

Research and Development. Except for the Navy F-18 aircraft development program, the recommended alternative accepts the Defense proposed R&D level. The 1977 R&D program reflects level spending for strategic R&D. Significant increases are planned for tactical systems development and for the research and technology base.

Procurement. Strategic systems procurement is planned to increase sharply in 1977 as both the B-1 bomber and Trident missile enter full-scale production. The recommended alternative provides the full requests for these systems. The Minuteman III missile program will be an issue if Defense amends its request and proposes to continue production.

In the tactical systems category, large increases are proposed for new ship construction, including expanded procurement of nuclear-powered attack submarines and guided missile frigates, initial procurement of a conventionally powered destroyer, and long-lead procurement of the new CVNX carrier and the new CSGN nuclear powered strike cruiser. There are also significant increases in the procurement of tactical aircraft and land forces equipment, including tanks. The recommended alternative provides increases in these tactical areas but at a more moderate pace by adjusting production rate schedules, by deferring initial production where procurement appears premature, and by terminating several low priority aircraft and missile programs. The fiscal constraint alternative includes further deferrals of tactical systems procurement. Both alternatives add \$.8 B to the agency request to cover full funding of ship construction.

The intelligence program reduction shown in the Defense modernization summary is not included as a separate issue in this review, but will be addressed in the intelligence program review.



Defense Modernization Summary
(TOA in \$ billions)

	<u>1975</u>	<u>1976 Est.</u>	<u>1977</u>		<u>1978</u>	
			<u>Agency request</u>	<u>OMB Recommendation</u>	<u>Agency request</u>	<u>OMB Recommendation</u>
<u>R&D</u>						
Strategic	2.1	2.4	2.5	2.5		
Major Tactical Systems Development	2.9	3.3	4.2	4.0		
Other	<u>3.6</u>	<u>3.7</u>	<u>4.1</u>	<u>4.1</u>		
	8.6	9.4	10.8	10.6	12.0	11.8
<u>Procurement</u>						
Strategic	2.1	1.6	3.6	3.6		
Major Tactical Systems Procurement	6.8	9.9	14.5	12.7*		
Intelligence	1.8	2.0	2.4	2.2		
Other	<u>6.7</u>	<u>7.8</u>	<u>10.1</u>	<u>9.1</u>		
	17.4	21.3	30.6	27.6	34.0	30.6
Total R&D and Procurement	26.0	30.7	41.4	38.2	46.0	42.4

* Includes \$.8B not included in Agency request for full funding of ship construction.



A large increase is also requested for non-major systems procurement including ammunition, communications equipment, aircraft modifications, spares and repair parts, and general support equipment. The recommended alternative assumes that this procurement category can be considered on a level of effort basis and still provides an increase which allows significant real growth.

Impact of recommended level

The recommended alternative achieves the following objectives:

- ° maintains our commitment to continuation of major strategic programs and moves ahead with a range of new strategic options.
- ° signals real growth in principal areas of tactical systems development and procurement, reaffirming the President's commitment to general purpose force modernization.
- ° includes real growth in the Defense research and technology base.
- ° demonstrates a commitment to efficiency by terminating or deferring low priority systems.

Summary of Issue

The following table lists the specific program issues:

<u>Issues</u>	<u>Adjustments to 1977 Agency Request</u>	
	<u>OMB Recommendation</u>	<u>Fiscal Constraint Level</u>
Non-major systems procurement	-1,000	-1,000
Ground forces procurement	-238	-359
Major warships: Cruisers/Destroyers	---	-1,029
Aircraft carrier funding	-200	-200
Attack submarines and patrol frigates	-249	-660
Support ships	-363	-363
Full funding of shipbuilding	+846	+846
Condor missile	-49	-49
F-18 development	-233	-233
Tactical aircraft procurement	-1,102	-1,270
Aerospace overcapacity	-402	-513
Advanced tanker/cargo aircraft	---	---
Minuteman III missile procurement	<u>(-322)</u>	<u>(-322)</u>
	<u>-2,990</u>	<u>-4,830</u>



Issue Paper
 Department of Defense
 1977 Budget
 Non-major Systems Procurement

Statement of Issue

Should the level of non-major systems procurement be reduced below the current Defense estimate?

Background

About 35% of Defense procurement is comprised of non-major systems such as communications and electronics equipment, ammunition, aircraft spares, repair parts, and support equipment. These are the items which directly impact the capability and readiness of the current operating forces as opposed to the major procurements of new ships, tanks and aircraft which will impact future force levels.

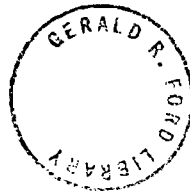
Alternatives

- #1. Allow a 30% increase in non-major systems procurement in 1977. (Agency request)
 #2. Allow a 17% increase in non-major systems procurement in 1977. (OMB recommendation)

	<u>TOA (\$ millions)</u>			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1	6,700	7,800	10,100	11,300
Alternative #2	6,700	7,800	9,100	10,200

Analysis

The table shows funding of non-major systems procurement by principal category. The Defense request will provide an overall increase of about 30%. The OMB alternative assumes that, in the aggregate, non-major systems procurement can be treated on a level of effort basis. It assumes that a 17% overall increase will cover inflation, provide real growth of 5%, and cover possible congressional action.



Non-major Systems Procurement
(TOA \$B)

	<u>1975</u>	<u>1976</u> <u>Est.</u>	<u>1977</u>	
			<u>Agency</u> <u>Request</u>	<u>OMB</u> <u>Recom.</u>
Munitions	1.2	1.3	1.6	
Modifications and spares	2.2	2.3	3.1	
Support equipment and facilities	2.0	2.4	3.1	
Support vehicles2	.4	.5	
Communications and electronics	<u>1.1</u>	<u>1.4</u>	<u>1.8</u>	
	6.7	7.8	10.1	<u>9.1</u>

Agency Request: Alternative #1. Additional reductions, however, are likely to be achieved during the internal Defense budget review.

OMB Recommendation: Alternative #2. An overall non-major systems procurement increase of 17% can be allocated to avoid any adverse programmatic effect.



Ground Forces Modernization - Objectives and Programs

The major objectives of the ground forces modernization programs are to:

- Provide new technology equipment for the anti-tank and air defense missions.
- Counter the tank-rich Warsaw Pact forces by a combination of helicopters, tanks, and anti-tank weapons.
- Continue to modernize the reserve forces.
- Rebuild war reserve stocks.

The major 1977 programs proposed by DOD to accomplish this are:

- Upgrading of helicopter gunships to provide improved anti-tank capabilities and development of a new attack helicopter.
- Initial procurement of a new troop-carrying helicopter (UTTAS).
- Procurement of new missiles for air defense and anti-tank purposes (TOW, Dragon, Stinger).
- Upgrading of existing M-48 tanks.
- Increased production of new M-60 tanks.
- Development of a next generation tank (the XM-1).
- Procurement of a long range non-nuclear Lance missile to augment artillery capabilities.

The recommended alternative adjusts tank development and production schedules to (a) recognize a fact-of-life slip in the build-up of M-60 tank production rate, (b) insure competition between U.S. and German prototypes of the new tank. The alternative also proposes cancelling the non-nuclear Lance program because of its marginal effectiveness. Other major initiatives are fully supported.



Issue Paper
Department of Defense
1977 Budget
Ground Forces Procurement

Statement of Issue

Should procurement of the non-nuclear Lance missile, and the XM-1 tank, be initiated in 1977? What should be the production rate of the M-60 tank?

Background

The Army's force modernization Program includes initial procurement in 1977 of the Lance non-nuclear surface-to-surface missile, initial long-lead procurement for the new XM-1 tank, and acceleration of on-going production of the M-60 tank.

Alternatives

- #1. Accept Army plans for 1977 procurement of the systems mentioned above. (Agency request)
- #2. Cancel procurement of non-nuclear Lance and defer long-lead funding of the XM-1 tank. Recognize a fact-of-life slip in the M-60 tank production build-up. (OMB recommendation)
- #3. Maintain a constant M-60 tank production rate in the 1976-80 period and defer funding for ancillary equipment. (Fiscal constraint level)

	TOA (\$Millions)			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1	186	379	656	564
Alternative #2	186	379	418	488
Alternative #3	186	379	297	470



Analysis

OK. Non-nuclear Lance - The Army has completed procurement of the nuclear Lance missile and now proposes to procure a non-nuclear version to augment conventional artillery capability. The requirement for a Lance armed with conventional warheads has been controversial both in Congress and within Defense because this system overlaps existing Air Force capability. Both OMB and Defense staff have concluded that Lance is not cost-effective. The Israelis have procured 104 non-nuclear Lance missiles and carriers. This equipment will be completely delivered by December of 1975, and is not a factor in the 1977 budget request. In the absence of additional foreign procurement, a decision to cancel non-nuclear Lance in 1977 would terminate the production line.

OK. XM-1 tank - The Army program for 1977 includes initial production funds for the new XM-1 tank leading to initial production in 1979 with full-scale production commencing in FY 1980. The Army has been directed to test a Leopard II German developmental tank in competition with U.S. developed prototypes. Because of delays in testing the modified Leopard II, the Army plans to select a winner of the U.S. competition and to enter full-scale development prior to completion of tests with the Leopard II. This puts the German tank under a heavy competitive disadvantage since the Leopard must not only outperform its U.S. competition, but must provide cost savings at least equal to the termination costs for the ongoing domestic contractor.

The alternative would rephrase the program to permit evaluation of the modified Leopard II tank, consistent with the Defense commitment to the Germans to provide a competitive opportunity for the Leopard II as part of the NATO Standardization program. Rephrasing the XM-1 program to permit competition with the Leopard II was raised by the 1976 House Appropriations Committee report. If the HAC proposed reductions are sustained, the program will probably be forced to slip one year.

M-60 tank production - The Army has undertaken to increase its tank inventory and has significantly expanded its M-60 tank production capability by opening a second source for hull and turret castings. Production of tanks is planned to rise from 662 in 1976 to 886 in 1977. This is motivated by inventory drawdowns experienced as a result of the 1973 Middle East War, by higher reestimates of requirements to meet attrition losses, and by a decision to convert two combat divisions from infantry to armor.



The recommended alternative supports the Army's decision to increase tank production but recognizes a fact-of-life slip in the production of tanks procured with 1976 and prior year funds. The Army program is based on achieving a tank production rate of 104 per month by March 1977. Delays in selecting a second source for hull and turret castings have caused a seven-month slip in achieving this production rate. This allows the funding of about 170 tanks to be deferred from 1977.

The fiscal constraint alternative further reduces the 1977 tank program by smoothing production rates over the 1977 to 1980 time period. This would shift funding from earlier to later years with inventory objectives still being achieved by 1980. A disadvantage of this alternative is that tank production capability, which has just been expanded, will not be fully utilized. In addition to the production rate adjustment, the fiscal constraint alternative defers funding of some ancillary tank equipment (a laser range-finder and solid state computer) to permit more complete operational field testing of these systems before commitment to production. The following table compares M-60 production rates under all three alternatives.

	<u>Alternative 1</u>	<u>Alternative 2</u>	<u>Alternative 3</u>
1976	662	662	662
1977	886	716	623
1978	649	649	623
1979	786	786	623
1980	<u>171</u>	<u>341</u>	<u>623</u>
Total	3,154	3,154	3,154



↘ Agency Request: Alternative #1. The Army considers these items of high priority.

OMB Recommendation: Alternative #2. Continue to support Army modernization efforts but recognize fact-of-life changes in the M-60 tank and phase the XM-1 tank program to allow competition with the German Leopard II tank. Cancel non-nuclear Lance.

Naval Forces Modernization - Objectives and Programs

The major objectives of the naval forces modernization programs are to:

- Increase the overall size of the combat fleet from 496 ships at the end of 1975 to 541 by the end of 1984.
- Improve the capability against enemy cruise missiles by introducing an improved air defense missile system into the fleet.
- Maintain a carrier force control of the seas and to project power ashore.
- Improve anti-submarine capability to protect sea lanes.
- Replace aging support ships to supply and maintain the operating forces.

The major 1977 programs proposed by DOD to accomplish this are:

- Maximum procurement of the Patrol Frigate combat ship to serve as convoy escorts.
- Initial funding for a new class of smaller carriers.
- Purchase the first destroyer equipped with the new air defense missile system and provide initial funding for a missile equipped nuclear strike cruiser.
- Continued procurement of nuclear attack submarines.
- Acquisition of fleet oilers and destroyer tenders.

The recommended alternative fully supports planned procurement of Patrol Frigates and new destroyer/cruisers. The alternative modifies the proposed program by (1) adjusting attack submarine funding to recognize shipyard capacity constraints, (2) deferring lead funding for the new carrier to permit better program definition, and (3) slowing down support ship replacement to allow for a Navy reassessment of support requirements.



Issue Paper
 Department of Defense
 1977 Budget
 Major Warships: Cruisers/Destroyers

Statement of Issue

How should procurement of nuclear and conventionally powered cruiser/destroyers be phased?

Background

The Navy has identified as a high priority requirement an improved air defense capability against Soviet cruise missiles.

Defense plans to initiate procurement of a mix of nuclear and conventionally powered destroyers and cruisers equipped with the Aegis air defense missile system to meet this need. The first ship, a modified DD 963 destroyer, (DDG) is planned for 1977 and would be conventionally powered. The second ship, a strike cruiser, with some offensive as well as defensive capability, is planned for 1978 and would be nuclear powered. Last summer, the President amended the 1976 budget to provide advanced funding for the ship but Congress deleted the funds requested. Title VIII of the 1975 Authorization Bill requires all major warships to be nuclear powered unless the President determines, and informs the Congress that it is not in the national interest.

The current production plan is as follows:

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Conventionally powered destroyers.....	1		2	2	2
Nuclear powered cruisers.....		1		1	1



Alternatives

↙ #1. Fund a conventionally powered destroyer in 1977 and plan for a nuclear powered cruiser in 1978; the President must make a Title VIII determination in conjunction with the 1977 budget. (Agency request and OMB recommendation)

#2. Fund a nuclear powered ship in 1977 and a conventional powered ship in 1978; a Title VIII determination is not required in 1977.

#3. Slip the planned Navy program for one year; no Title VIII determination is required in 1977. (Fiscal constraint level)

	TOA (\$ Millions)			
	1975	1976	1977	1978
Alternative #1.....			1,029	1,073
Alternative #2.....			1,173	1,120
Alternative #3.....				1,029

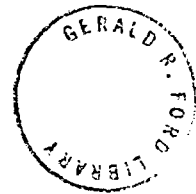
Analysis

Defense plans to procure a mix of nuclear and conventionally powered destroyer/cruisers as a feasible compromise between a more cost-effective but politically unacceptable all conventional force and a very costly all nuclear fleet. The Navy desires to introduce the Aegis air defense system into the fleet as early as possible in order to counter the Soviet cruise missile threat. The Navy now appears to have overcome Aegis development problems and this complicated but highly capable system appears ready for deployment.

Alternative #1 provides for the most rapid introduction of the Aegis into the fleet since the lead ship, a derivative of the DD 963, would be relatively simple to design and build. The ship could be available by 1982. The design of the nuclear strike cruiser, on the other hand, is as yet not well defined. Even if the ship were fully-funded in 1977 as provided by alternative #2, its delivery date could probably not be earlier than December 1983, the currently planned date. While alternative #1 will require a Title VIII determination by the President, such a determination can argue that (a) early deployment of a new air defense capability is essential and this can only be provided by funding a conventionally powered ship; (b) we are still committed to the construction of a nuclear powered cruiser but full-funding of this ship in 1977 would be premature.

Alternative #3 allows large 1977 savings with penalty of at least a year's delay introducing the Aegis missile system into the fleet.

Agency Request/OMB Recommendation: Alternative #1. This will require a Title VIII determination by the President in 1977 and will provide for the earliest possible introduction of the Aegis air defense system into the fleet.



Issue Paper
 Department of Defense
 1977 Budget
 Aircraft Carrier Funding

Statement of Issue

Should advance funding be provided in 1977 for a nuclear aircraft carrier?

Background

The Navy plans to retain a force of 13 aircraft carriers. In September, during the 1977 Defense program review, the Secretary of Defense directed the Navy to develop a new carrier type instead of continuing to build large follow-on carriers of the Nimitz class (90,000 tons). The intent of the smaller carrier is to reduce investment and operating costs but the specifics remain undefined. The new carrier will require extensive design work and the development of a new nuclear propulsion plant. The cost of the first ship is budgeted at \$1,900 million, of which \$200 million in advance funding is included in the 1977 request (about the same as a follow-on Nimitz class). In addition, about \$250 million will be required in R&D funds, mostly for development of a nuclear plant.

The funding profile for the first of a new size nuclear carrier (CVNX) is as follows:

	(\$ Millions)		
	1977	1978	1979
CVNX	200	300	1,400

Alternatives

- #1. Fund \$200 million in advance procurement for the CVNX in 1977.(Agency request)
- #2. Provide no funding for the CVNX in 1977. Defer procurement one year to permit better definition of ship characteristics.(OMB recommendation)



	TOA (\$ Millions)			
	1975	1976	1977	1978
Alternative #1	-	-	200	300
Alternative #2	-	-	-	200

Analysis

There are three considerations that argue against funding advance procurement for the carrier in 1977.

- The design characteristics are not defined. So little is known at this point about what the ship will be like and the specifics of its power plant that the 1977 funding is no more than a convenient number.
- Many in the Navy are skeptical about the cost-effectiveness of the new type carrier. The cost of the first 50,000 ton carrier will be at least as great as a Nimitz class carrier and it is likely to be less capable. The departure of Secretary Schlesinger removes the prime catalyst for this program.
- The CVNX procurement in 1977 assumes both a 13 carrier force and replacement of Forrestal class carriers after 30 years of service. However, the size of the force in the mid-80s is still under discussion and a carrier force of 12 ships is a strong possibility. Also, service life of the older Forrestal class carrier may be extended from 30 to 35 years.

Agency Request: Alternative #1. The CVNX represents a major new initiative by Defense aimed ultimately at reducing procurement and operating costs by scaling down carrier ship sizes. Defense believes the 1977 funding would demonstrate its commitment to the new ship.

OMB Recommendation: Alternative #2. Continue to provide R&D funding only as evidence of Defense commitment to the new concept. Deferment of production funding for a year will encourage a better thought-out and planned program.



Issue Paper
Department of Defense
1977 Budget
Support Ships

Statement of Issue

Should the Navy buy fewer oiler and destroyer tender support ships in 1977?

Background

Defense plans to modernize and expand its fleet of oilers from 16 to 19 by 1984. They plan to procure nine new oilers for this program. The destroyer tender force will be maintained at 9. However, 7 new tenders are required to replace the aging fleet. The procurement plan is as follows:

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Oilers		2	2	2	2	3	2
Destroyer Tenders	1	1	1	1	1		1

Alternatives

- #1. Fund two oilers and one destroyer tender in 1977 and in 1978. (Agency request)
- #2. Defer funding one oiler and one destroyer tender in 1977 and defer one oiler in 1978. (OMB recommendation)

	TOA (\$ Millions)			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1.....	128	441	465	573
Alternative #2.....	128	441	102	431



Analysis

Deferral of these ships would have minimal effect on the combat capability of the fleet and would allow the Navy more time to reassess alternatives to satisfying support requirements.

Oilers - The Navy plans to increase its force of 16 oilers by 3 additional ships. At present, half of the oilers are manned by Navy personnel and half by Military Sealift Command (MSC) personnel. The new ships are to be Navy manned and built to Navy specifications. The Navy has not adequately assessed options to man a greater portion of its oilers with MSC or union crews in order to increase ship utilization and decrease ship requirements. A shift to more civilian manning would require extensive retrofit of the new ships to meet commercial specifications. A delay in oiler construction would permit the Navy time to reevaluate manning plans before committing to a specific ship design.

Destroyer tenders - The Navy plans to replace existing destroyer tenders because of their age (26 year average) and because of requirements generated by the new destroyers now being delivered. At the same time, however, the Navy is embarking on an ambitious program to upgrade existing shore-based repair facilities which perform the functions of destroyer tenders. The shore facilities are in fact more efficient and capable than the tenders. It is not clear that the Navy continues to need as many tenders as are now in the fleet to satisfy mobility requirements. Delay of the 1977 procurement would allow time to consider placing greater reliance on fixed shore facilities than now exists.

Agency Request: Alternative #1. The Navy believes that deferral of support ship modernization is not prudent.

OMB Recommendation: Alternative #2. Slowdown of support ship procurements will permit the orderly consideration of lower cost methods of meeting requirements and not impact on force capability.



Issue Paper
 Department of Defense
 1977 Budget
 Attack Submarines and Patrol Frigates

Statement of Issue

Should patrol frigate and nuclear attack submarines procurement funding be rephased to reflect industry capacity?

Background

Navy patrol frigates (FFG) are small ships with a guided missile capability. They are a relatively inexpensive ship and can be constructed in one to two years faster than the 963 class destroyer. The Navy plans to procure 60 of these ships through 1981 as a major step toward expanding the size of the combat fleet. Nuclear attack submarines are tactical submarines used to search out and destroy enemy submarines. Defense procurement plans are as follows:

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Attack submarines.....	2	3	2	3	2	3
Patrol frigates.....	6	11	12	11	13	13

Alternatives

- ➔ #1. Accept Defense procurement plans for 1977 and 1978. (Agency request)
- #2. Shift funding of one attack submarine from 1977 to 1978. (OMB recommendation)
- #3. In addition, reduce patrol frigate procurement by three ships in 1977. (Fiscal constraint level)

	<u>TOA (\$ Millions)</u>			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1.....	688	1,343	2,475	2,476
Alternative #2.....	688	1,343	2,226	2,797
Alternative #3.....	688	1,343	1,815	2,718



Analysis

Because of current shipyard backlogs, funding profiles can be adjusted for procurement of both patrol frigates and nuclear submarines without any impact on production delivery dates.

Attack Submarines - Newport News and Electric Boat are the only shipyards currently capable of producing nuclear attack submarines. The Navy estimates 60 months as the minimum required time between ship award and delivery for this class of submarine. Consequently, the last of the 1977 ships can be awarded in January 1978 and still meet a January 1983 delivery date, as planned. By 1978, capacity problems are expected to ease sufficiently to permit procurement of three of these submarines.

Patrol Frigates - The Navy has already reduced its planned buy from thirteen to eleven ships in 1977 and has indicated that even this number may be excessive given the capacity of the three yards that are building these ships. Current estimates project that the time elapsing from contract award to start of construction for the 1977 ships is nearly two years. Funding for three ships can be slipped in both 1977 and 1978 without affecting delivery.

While the 1977 funding for both ships can be adjusted with no impact on ship delivery dates, the recommended alternative provides requested procurement funding for patrol frigates. This reaffirms the Administration's commitment to the program that most visibly increases combat fleet size. The fiscal constraint alternative reduces funding for both ships in 1977.

Agency Request: Alternative #1. The Navy would oppose any reduction to its planned schedule as a lack of commitment to the programs in question. Efforts to reduce 1976 funding for attack submarines because of capacity problems were successfully opposed by Defense.

OMB Recommendation: Alternative #2. Defer funding of one nuclear attack submarine to 1978 because of capacity constraints. Signal the Administration's approval of plans for significant increases in combat fleet size by accepting the full Defense patrol frigate request.



Issue Paper
 Department of Defense
 1977 Budget
 Full Funding of Shipbuilding

Statement of Issue

Should shipbuilding be fully funded in 1977 for 1975 and prior year programs?

Background

The 1976 budget as presented to Congress requested 1976 funds to cover cost growth and escalation experienced in prior year programs. However, Congress made some reductions in these funds and authorized only the portion required for obligation in 1976, 1977, and part of 1977. The 1977 budget request fully funds cost growth for all program years and escalation for 1976 and 1977. Escalation for 1975 and prior year programs, however, is funded only for obligations required in 1977, with remaining funds of \$846 M deferred to 1978-80. The funding profile is as follows:

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
1975 and Prior:					
Cost Growth	932	532			
Escalation	420	244	366	377	103

Alternatives

- #1. Incrementally fund escalation for 1975 and prior year programs as directed by the Authorizing Committees, deferring \$846 M of funding to 1978-80. (Agency request)
- #2. Reestablish a full funding policy for all program years, adding \$846 M to the shipbuilding program total in 1977. (OMB recommendation)

	<u>TOA (\$ millions)</u>			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1	-	-	-	+366
Alternative #2			+846	-366



Analysis

From the early fifties through 1974, the Department of Defense adhered to a full funding policy for shipbuilding and other procurement. "Full funding" means that before a contract is awarded, all the funds necessary to complete that contract should be in hand. In the event that additional funding is required before award but after authorization, necessary funds are provided by cancelling program. Additional funding required after awards are requested in the next budget.

In the 1976 budget, when rising inflation rates increased the unfunded cost of 1975 and prior year programs by over \$1 billion, the President, in response to a request from the Secretary of Defense, permitted a one-time exception to not fully fund the 1975 program. This avoided reductions in the planned 1975 program and presented Congress with a "fait accompli" since the \$.9 B for escalation and cost growth was committed before Congress provides the funding.

Congress, in the 1977 authorization, has taken a further step away from full funding and stated their intent "to authorize only such funds for escalation in shipbuilding programs as are estimated to be obligated in the current fiscal year and the next following fiscal year."

In the 1977 budget, Defense is proposing to return to full funding for the 1976 and 1977 programs but to continue to incrementally fund 1975 and prior year escalation.

The merits of full funding rest on the proposition that the estimated end cost of a procurement, particularly of a major weapons system, should always be clearly visible and completely covered, both at the time of authorization and throughout construction. In this way, programs are not bought into on the basis of artificially low cost; cost increases are seen in their entirety when they occur and provide an opportunity to realistically reassess program. Future year program funding is not committed in advance to past year program completion.

Agency Request: Alternative #1. Defense believes incremental funding of 1975 prior year escalation is a marginal deviation from the full funding concept and in line with congressional action on the 1976 budget. Defense would point out that full funding of prior year program escalation is a certain target for congressional reductions.

OMB Recommendation: Alternative #2. We should avoid any further compromise of the full funding principal.



Tactical Air Forces Modernization - Objectives and Programs

The objective of the Air Force 1977 tactical air modernization programs is to increase our ability to defeat a major air/armored attack by the Warsaw Pact against NATO in Central Europe. Specific objectives are:

- Improve the air-to-air combat capability, both quality and quantity, to maintain air superiority.
- Provide increased support to the ground forces with particular emphasis on destroying tanks.
- Provide the capability to detect and intercept low flying aircraft.

The objectives of the Navy tactical air modernization program are to:

- Improve its defense capability against anti-ship missiles.
- Provide an air combat fighter to replace the F-4.

The major 1977 programs proposed by DOD to accomplish this are:

Air Force

- Continued procurement of the F-15 fighter and initial procurement of the F-16 fighter as replacements for the F-4 aircraft.
- Continued procurement of the A-10 aircraft for close air support of ground forces.
- Continued procurement of the AWACS (airborne warning and control) aircraft for aircraft detection and battle management.



Navy

- Continued procurement of the F-14 fighter and A-7 attack aircraft.
- Development of the F-18 aircraft to supplement the F-14 and A-7 aircraft.
- Continued development and procurement of several tactical air-delivered missiles.

The recommended alternative provides for continuation of all major Air Force procurement programs but, except for the F-16 program, at slower rates than planned.

With respect to the Navy, the alternative provides for planned F-14 procurement but delays development of a new air combat fighter pending a thorough design competition. In addition, the alternative proposes termination of several uneconomic naval aircraft production lines and the cancellation of a marginal missile development program.



Issue Paper
 Department of Defense
 1977 Budget
 CONDOR Missile

Statement of Issue

Should the CONDOR missile be cancelled?

Background

Since 1968 the Navy has proposed the initial production of this long-range air-to-ground missile. However, because of reliability problems, high cost and questionable utility, production has been denied by either the Secretary of Defense or Congress. Last year, despite wide opposition from Defense staff, CONDOR procurement was at the last moment included in the 1976 budget.

Alternatives

- #1. Fund the Service request for procurement of the CONDOR missile starting in 1976. (Agency request)
- #2. Cancel the CONDOR procurement program in 1976. (OMB recommendation)

	<u>TOA (\$ millions)</u>				
	<u>1975</u>	<u>1976</u>	<u>197T</u>	<u>1977</u>	<u>1978</u>
Alternative #1	--	86	10	49	65
Alternative #2	--	--	--	--	--

Analysis

Aimed at designing a missile capable of long-range (60 mile) air delivery against heavily protected, high value targets, the development of CONDOR began in the mid-1960's and has not yet been successfully completed.



The following considerations argue against procuring the CONDOR and for cancelling the program:

. Procurement is premature in view of the continued lack of missile reliability. Recent Navy tests found the missile unsuitable for service use because of reliability problems.

. Even if technical deficiencies are corrected, the missile has significant operational limitations. It can be used only under clear weather conditions; its large size and low speed make it vulnerable to anti-air defenses.

. CONDOR is very costly and will be procured only in small numbers. The Navy now plans to procure 800 missiles at a procurement cost estimated by Defense of about \$600 M, including costs of ancillary delivery equipment.

. There are attractive competitors to CONDOR both in the inventory and under development. The Walleye guided bomb (5,000 is the current inventory) and the Harpoon missile are examples.

The alternative assumes that the CONDOR missile is not worth its costs and should be cancelled.

Agency Request: Alternative #1. The Navy wishes to procure a limited number of CONDOR missiles to provide a specialized capability to attack at stand-off ranges, heavily defended high-value land-based targets.

OMB Recommendation: Alternative #2. Terminate the CONDOR program in 1976. There is considerable Defense staff support for the view that CONDOR is not worth the cost.



Issue Paper
Department of Defense
1977 Budget
F-18 Development

Statement of Issue

Should the Navy reopen competition for a new air combat fighter?

Background

The Navy Air Combat Fighter (NACF) will replace F-4 fighter and A-7 attack aircraft. The F-18 design was chosen by the Navy in May 1975, on the basis of a congressionally-directed competition between the F-16 and F-17 air combat fighter prototypes. While the F-16 was selected by the Air Force, the Navy chose the F-18, a derivative of the competing F-17 prototype.

Alternatives

- #1. Initiate full-scale development of the F-18 at a pace which will allow replacement of F-4s to start in 1982. (Agency request)
- #2. Recompete industry designs for a new NACF. (OMB recommendation)

	<u>TOA (\$ Millions)</u>				
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Alternative #1	20	110	23	346	638
Alternative #2		30	5	113	396

Analysis

The F-18 design evolved as a compromise between performance requirements desired by the Navy and the restriction imposed by Congress to select an aircraft from the F-16/F-17 competition. The F-18 design that was chosen, however, has several deficiencies:



- . Since the Air Force and Navy chose different aircraft designs, cost advantages of a common system cannot be realized.
- . The F-18 only barely satisfies minimum Navy requirements especially with respect to range and payload. It falls far short of goals that the Navy desires.
- . Although conceived as a low cost aircraft, F-18 program costs are already estimated to be comparable to those of procuring additional F-14s and A-7s. F-18 costs are likely to rise as the Navy attempts to upgrade F-18 performance characteristics. Since important elements of the Navy are known to prefer the F-14 to the F-18, there is little motivation for the Navy to restrain F-18 costs.

The OMB recommendation assumes that recompeting the aircraft without the constraint of choosing an F-16 or an F-17 derivative may yield alternative designs that would approach Navy performance goals at acceptable costs. Several contractors appear confident that better solutions than the F-18 can be found. If such an alternative were found, the Navy would then be strongly motivated to keep costs below the threshold imposed by the F-14 options. The OMB recommendation differs from the views of congressional critics, who wish the Navy to delay the F-18 and more thoroughly consider F-16 derivatives in the interest of greater commonality.

→ Agency Request: Alternative #1. DOD believes that the requested development program is essential in order to prevent a gap in Navy fighter availability during the early 1980s and attack aircraft in the mid-1980s, and that recompetition is not likely to produce more cost-effective alternatives than the F-18. Also, a delay in the F-18 program would raise total systems costs.

OMB Recommendation: Alternative #2. Reopen design competition for a new Navy Air Combat Fighter. This will delay introduction of a new combat fighter by about one year, but may produce more acceptable alternatives than the F-18.



Issue Paper
 Department of Defense
 1977 Budget
 Tactical Aircraft Procurement

Statement of Issue

Should the procurement rate of new Air Force aircraft be reduced?

Background

The Air Force tactical air forces are being modernized through procurement of three aircraft: the F-15 air superiority fighter, the A-10 for close air support of land forces, and the Airborne Warning and Control System (AWACS) for command and control of the air battle. The Air Force plans to spend \$2.7 billion in 1977 on these aircraft. In light of structural problems with the A-10 and foreign sales potential in the F-15 and AWACS, it may be prudent to stretch out procurement of these aircraft.

Alternatives

- #1. Build up the monthly procurement of A-10s from a rate of 5 per month in 1976 to 13 per month in 1977; procure 6 AWACS aircraft and 108 F-15s in 1977 and 1978.(Agency request)
- #2. Hold production of the A-10 to 5/month through 1977; procure 3 AWACS per year in 1977 and 1978; procure 72 F-15 aircraft in 1977 and 108 in 1978.(OMB recommendation)
- #3. Hold production of the A-10 to 2/month--the minimum sustaining rate--through 1977, keeping the AWACS and F-15 rates the same as Alternative 2.(Fiscal constraint level)

	<u>TOA (\$ millions)</u>			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1	1,501	2,101	2,794	2,677
Alternative #2	1,501	2,101	1,692	2,278
Alternative #3	1,501	1,975	1,524	2,278



OMB Analysis

OMB A-10. The A-10 is an aircraft designed around a large gun which can destroy tanks and other ground targets. During recent fatigue testing of the A-10 airframe, a major unanticipated structural failure in the fuselage developed after the gun was fired. This is a serious problem which must be thoroughly understood and corrective action taken. Alternatives 2 and 3 delay increasing the planned procurement rate of A-10s until the aircraft fix has been completed and demonstrated. Alternative 2 reduces 1977 TOA by \$393 million; alternative 3 by \$561 million.

DOD AWACS. DOD plans to procure a total of 34 AWACS aircraft for worldwide contingencies with the NATO theater driving the force size. Efforts are underway to encourage European countries to purchase some of the 34 aircraft, but the outcome of these efforts is uncertain. The buy of 6 aircraft in both 1977 and 1978 will give the U.S. 27 aircraft and will reduce the incentive for European countries to participate in the procurement. If the 1977 procurement level were reduced to 3, it would give the European countries more time and incentive to make a positive decision regarding procurement. The risk of such a cutback would be higher unit procurement costs for those procured in 1977. Alternative 2 reduces 1977 TOA by \$188 million.

F-15. Defense plans to purchase 108 aircraft in 1976 and in 1977. The OMB alternative of 72 aircraft in 1977 assumes that at least 36 F-15 aircraft can be sold to foreign buyers in 1977, allowing the F-15 production line to be maintained at an efficient rate of 9 per month. Israel has already expressed strong interest in the F-15. While the rate of F-15 introduction into the Air Force would be slowed, F-4 aircraft could be retained in active inventory for an additional year without force or readiness degradation. Alternative 2 reduces 1977 TOA by \$521 million.

Agency Request: Alternative #1. Defense will resist any slowdown in the rate of tactical aircraft modernization. F-15 and AWACS are the top priority Air Force modernization programs.

OMB Recommendation: Alternative #2. Continue tactical aircraft modernization but at a slower rate than proposed.



72
36
97

Issue Paper
 Department of Defense
 1977 Budget
 Aerospace Overcapacity

Statement of Issue

Should industry overcapacity be reduced by discontinuing several inefficient Navy aircraft production lines?

Background

Defense currently supports 11 major aircraft prime contractors. However, the annual requirement for new production military aircraft is not sufficient to maintain most of these contractors at economical production levels. In many cases, aircraft lines are producing well below economic rates. This issue examines the Navy's aircraft procurement program with a view to terminating those production efforts whose principal justification is the maintenance of a "warm base" rather than procurement aimed at filling major voids in the inventory at economical rates of production.

Alternatives

- #1. Fund the Navy's request for procurement. (Agency request)
- #2. Fund a Navy procurement program which cancels continued production of the A-4M, A-6E, E-2C, and C-130 type aircraft. (OMB recommendation)
- #3. In addition to Alternative 2, cancel continued production of the EA-6. (Fiscal constraint level)

	<u>TOA (\$ Millions)</u>			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1.....	1,926	1,994	2,122	2,129
→ Alternative #2.....	1,926	1,994	1,720	1,712
Alternative #3.....	1,926	1,994	1,609	1,596



Analysis

The following table compares stated Defense requirements and inventory levels for several Navy aircraft that are being maintained in production at low, uneconomical rates. The table shows that with the exception of the EA-6, inventories either meet or show a surplus above required levels.

	<u>Defense Requirement</u>	<u>End 197T Inventory</u>	Surplus (+) Deficit (-)
A-4 (light attack)	198	238	+40
C-130 (tanker, electronic surveillance and drone control)	68	68	
A-6 (long-range attack)	219	310	+91
E-2C (early warning)	63	72	+9
OK EA-6 (long-range attack and jamming)	85	67	-18

A-4

DOD plans to reopen production lines for the procurement of only 36 A-4M aircraft during the transition quarter through 1978 period. A planned transfer of all remaining Navy A-4's to the Marines will satisfy the total requirement for these aircraft. No additional A-4 aircraft need to be purchased.

C-130

The C-130 family turbo-prop cargo aircraft has been in production at Lockheed's Georgia plant for almost 20 years. The contractor's C-130 production line has been supported principally by foreign sales at a level of only three aircraft per month. Hence, the very expensive airframe cost of \$9 million each. In 1978 the Navy proposes to procure three of these aircraft to launch drone targets and for a special communications mission.



The need to enhance the target launching capability with this aircraft is not compelling. To the extent that any of these special communications missions for C-130 aircraft are valid, existing inventory aircraft should be modified for the purpose. Should foreign support of this line diminish, there would be no way to justify the cost of these procurements.

A-6

This is the Navy's all-weather medium attack aircraft produced at a 12 per year rate. The Secretary directed the Marines to transfer all Marine A-6's to the Navy and, hence, the requirement for this aircraft has recently been reduced from 17 to 12 squadrons leaving the Navy with excess quantities of A-6 on hand. There is no justification for continuing to procure this aircraft. The quantities on hand are sufficient to maintain the total force until the next generation medium all-weather attack aircraft is ready for procurement in the late 1980's.

E-2C

The E-2C is the Navy's early warning aircraft. Production is planned at a 6 per year rate. The current approved requirement is for 63 such aircraft through 1982. Our present inventory includes 65 aircraft, and planned procurements of the E-2 through FY 1976 build this inventory in excess of the requirement until normal operating attrition reduces the inventory to 64 aircraft in 1982. Continuing to produce this aircraft at one every-other-month can no longer be justified. More selective application of the E-2 assets to those carriers deploying to high threat environments will preclude major loss of readiness in the fleet.

EA-6B

The EA-6B is the Navy's electronic warfare aircraft and is produced at the rate of 6 per year. The basic purpose of this aircraft is deep interdiction missions against enemy logistics bases where penetration must be made through a heavy electronic countermeasures environment. About 40% of the total requirement for the EA-6 is for Marine Corps, to satisfy an interdiction mission which may be inappropriate as a Marine Corps function. The Marines normally limit air support to the immediate land battle. If the Marines transferred assets for interdiction to the Navy, existing assets would be more than sufficient to meet requirements.



Three of these aircraft (the A-6E, EA-6B, and E-2C) are all currently in production at the Grumman Aerospace Corporation. Curtailing all 3, or even 2 of the 3 programs will have a significant impact at Grumman. As nearly all of Grumman's business base is absorbed by the Navy aircraft programs, the dollar values shown for Alternatives 2 and 3 have been adjusted to reflect the cost increases which affect other Navy aircraft programs at Grumman.

Agency Request: Alternative #1. The Navy believes that continued low-rate production of these aircraft is justified in order to maintain a "warm base" for aircraft systems not needed in significant numbers in the inventory to provide for replacement and modernization of existing inventories. There is however, some Defense staff support for terminating these lines with the possible exception of the EA-6.

OMB Recommendation: Alternative #2. Cancel aircraft procurement programs where requirements have been met. The Navy should aim at modernizing with suitable modifications of aircraft produced in economic quantities.



Issue Paper
 Department of Defense
 1977 Budget
 Advanced Tanker/Cargo Aircraft

Statement of Issue

Should the Air Force seek authorization to commence buying this type of aircraft in 1978?

Background

The Advanced Tanker/Cargo Aircraft (ATCA) will be a militarized version of a commercial wide-body jet aircraft, such as the Boeing 747 or McDonnell-Douglas DC-10. It will be used as both a tanker and a cargo aircraft. The service request includes funds to demonstrate the feasibility of the approach but does not provide for procurement.

Alternatives

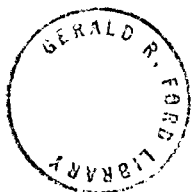
#1. Conduct a feasibility demonstration only. (Agency request)

#2. Initiate procurement of an Advanced Tanker/Cargo Aircraft in 1978. Limit purchases to a maximum of 60 aircraft with the balance of the needed lift capability provided by modifying commercial aircraft. (OMB recommendation)

	TOA (\$Millions)			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1			62	0
Alternative #2			62	300

Analysis

DOD has identified a large unsatisfied requirement for additional airlift capability to meet its NATO requirements on a timely basis. A low-cost plan to obtain this additional capability by modifying



110 wide-body aircraft owned by commercial air carriers has twice been rejected by Congress. That proposal had an estimated cost of \$.8 billion over 15 years.

DOD also can start to consider a replacement aircraft for its fleet of 600 KC-135 tanker aircraft which were acquired in the 1950's and have become expensive to operate and maintain.

The DC-10, 747, and L-1011 wide-body jets currently in production could be adapted without major modifications to meet the Defense cargo and tanker aircraft needs. One wide-body jet tanker, for example, has the capacity of 3-5 KC-135 tankers. Thus, replacing some numbers of KC-135 with a smaller number of wide-body tanker/cargo aircraft would offer large operating economies.

The wide-body jet manufacturers are currently experiencing severe financial problems with at least two of the manufacturers each facing losses of up to \$1 billion on their program. Future business prospects are low with the distress conditions existing in air transportation. Thus, the manufacturers are eager for new business, and highly-competitive bidding could be expected for a new military tanker/cargo program.

DOD has proposed only a prototype demonstration in 1977 with no follow-on plans for procurement. The acquisition cost would average \$30-50 million per aircraft when procured.

An alternate plan, which would help meet the airlift and tanker needs, take advantage of the favorable competitive situation and would be more salable for Congress, involves:

- Buying 60 tanker/cargo aircraft at a cost of about \$2.5 billion.
- Modifying 50 commercial aircraft at a cost of \$.46 billion.



Procurement could be initiated in 1978. Defense would present a plan involving purchase of new aircraft and modifications to the Congress. Approval to proceed would also be contingent upon Air Force agreement to reduce the KC-135 tankers on an agreed ratio of no less than two for each advanced tanker/cargo aircraft delivered, thus reducing future operating costs.

Informal discussions indicate the Air Force will support the above plan. OSD staff, however, prefers the commercial aircraft modification plan only despite slim chances of Congressional approval.

Agency Request: Alternative #1. Limit funding to a prototype demonstration only. Continue to press on an advanced tanker/cargo aircraft and Congressional approval to modify existing commercial aircraft.

→ OMB Recommendation: Alternative #2. Present a plan to Congress to purchase 60 tanker/cargo aircraft and modify 50 commercial aircraft with initial procurement funding in 1978.



Strategic Forces - Objectives and Programs

The objectives of the 1977 strategic forces modernization program is to maintain a credible deterrent by:

- Preserving the capacity to absorb a first strike and effectively respond against any aggressor.
- Being prepared to launch a range of appropriate attacks, including attacks limited in terms of targets and numbers of weapons.
- Being perceived as equal in overall capability to the forces of any opponent or combination of opponents.

The major 1977 programs proposed by DOD to accomplish this are:

- Continued engineering development and initial full-scale procurement of the B-1 strategic bomber.
- Continued development and procurement of the Trident submarine and missile system.
- Development of options for future deployment of improved intercontinental ballistic missiles that could be launched from fixed silos or mobile launchers.
- Continued development of ballistic missile warhead accuracy improvement and long range cruise missiles.
- Maintenance of a technology base for ballistic missile defense systems.
- Improvements in strategic force command, control and communications.

The recommended alternative makes no adjustments in the proposed strategic modernization program. The alternative assumes, however, that any expansion or acceleration of this program that may be necessary in the light of SALT developments should require specific Presidential guidance and approval.



Issue Paper
 Department of Defense
 1977 Budget
 Minuteman III Missile Procurement

Statement of Issue

Should Minuteman III Intercontinental Ballistic Missile (ICBM) procurement be discontinued after 1976?

Background

The Minuteman III ICBM carries up to 3 Multiple Independently Targetable Re-Entry Vehicles (MIRV's), is deployed in fixed, hardened silos in the North-Central U.S., and is the only U.S. ICBM currently in production. The last scheduled procurement of 50 missiles in 1976 meets all remaining requirements associated with the current deployment of 550 missiles, a number consistent with the Vladivostok SALT framework. The Air Force has not requested funding for continuing procurement in 1977, but the Defense Secretary may add funds for this purpose to the Defense request.

Alternatives

- #1. Discontinue procurement of Minuteman III after 1976.(Agency request and OMB recommendation)
- #2. Keep the production line open by procuring 60 Minuteman III missiles per year in 1977 and 1978. (Possible revised Agency request)

	<u>TOA (\$ Millions)</u>			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1.....	298	289		
Alternative #2.....	298	289	322	340



Analysis

Continuing Minuteman III production beyond 1976 was a principal item in the SALT-contingency budget amendment submitted by Defense but not yet approved by the President. If funds for continued production of the missile are included in the 1977 budget, this would preclude a visible Presidential decision later in possible response to SALT developments. Defense staff estimates that this decision can be delayed until February with no substantial cost penalty. A delay beyond June might incur sizable cost penalties.

If a SALT agreement is achieved with MIRV limitations as proposed in the Vladivostok accord, then continued deployment of Minuteman III is not necessary and would be at the expense of less vulnerable missiles currently planned for undersea deployment.

Agency Request: Alternative #1 but may be changed to Alternative #2. Defense may assert that continued Minuteman III production is a necessary hedge against SALT developments.

OMB Recommendation: Alternative #1. If it is necessary to continue production in view of SALT developments, this can be done later through visible Presidential action.



Small
Agencies

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This form marks the file location of item number 1-2
as listed on the pink form (GSA Form 7122, Withdrawal Sheet)
at the front of the folder.

1977 Presidential Review
Small Agencies
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*Selective Service System

American Battle Monuments Commission

U.S. Soldiers' and Airmen's Home

National Security Council

*Issue paper, agency appeal letter, or
background paper follows summary.



United States
Information
Agency

UNITED STATES INFORMATION AGENCY

Comments

Agency requested modest program increases and several large Voice of America radio construction projects. OMB recommends (1) deferral of 1976 VOA construction project in the Philippines, already appropriated, (2) denial of all 1977 program increases, including VOA construction, and (3) cessation of low priority VOA language broadcasts (Baltic languages, Greek, etc.) and activities in countries of minor foreign policy importance (mostly African and Latin American). Agency appeals the Philippine project and restoration of program to level only slightly below that of 1976. See attached paper and appeal letter.

	Budget Authority (In thousands of dollars)	Outlays (In thousands of dollars)	Full-time permanent employment
1975 actual	243,358	240,193	8,662
1976 current estimate	273,230	268,787	8,650
1976 OMB employment ceiling	XXX	XXX	9,046
Transition quarter current estimate ..	72,989	69,217	XXX
1977 agency request	274,600	275,100	8,945
1977 OMB recommendation	<u>246,057</u>	<u>252,933</u>	<u>8,452</u>
Effect of OMB recommendation on agency request	-28,543	-22,167	-493
1978 estimate	281,519	273,194	8,452



UNITED STATES INFORMATION AGENCY

The initial agency request of \$309M BA included only minimal programmatic increases but contained a number of large Voice of America radio construction projects. Given current budget policy, OMB recommends disallowing all increases and the radio construction projects (deferring the Philippine radio construction project already appropriated in 1976.)

Further, OMB recommends reducing current low priority agency operations as follows:

	<u>\$ M</u>
Close lower priority country programs (approximately 20) ...	6.5
Close individual lower priority information centers	1.5
Discontinue VOA languages (approximately 10)	5.7
Reduce media output	4.2
Cut India book program, etc.	1.6
Reduce other support operations	1.9

While these have been identified by USIA as their lowest priority operations, the agency argues that most of these cuts should not be made. The agency believes a policy of detente makes USIA activities all the more important to our foreign policy. Further, the agency points out that some of these cuts would be unpopular with vocal minority groups in this country.

The country programs to be closed are largely in sub-Sahara Africa and Latin America. The list of potential languages to be cut includes Estonian, Latvian, and Lithuanian, and Greek. In both instances, the agency argues opposition in this country to these cuts would be damaging to the administration even though those country programs and those languages are of little importance to the attainment of our foreign policy objectives.





UNITED STATES INFORMATION AGENCY
WASHINGTON

November 17, 1975

Dear Mr. President:

In the past eight years USIA has made a substantial contribution to reducing the growth of Federal spending. The Agency's real resources (constant dollars) as of Fiscal Year 1976 are 20% less than they were in 1967. In the same period the USIA staff has been cut by more than 20% -- a reduction of 2,774 positions.

While USIA has already been thus reduced, we recognize fully the need to hold down the growth of Federal spending at this time. Accordingly, we are now significantly lowering our original budget proposals for Fiscal Year 1977.

I am concerned, however, that the cut in the 1977 budget allowance for USIA set by OMB would greatly weaken the Agency when it is challenged to pursue around the world the ideological struggle that is inherent in the policy of detente. Detente seeks to replace a confrontation of arms with a competition of ideas. USIA is a principal instrument in this competition. If its capabilities to wage this vital struggle are damaged, critics would charge that the Administration was giving away an advantage to the Communist countries. Furthermore, the influence of our country in world affairs has been altered significantly by events of the last decade. Now, in a universe of nations interdependent more than ever, the United States must not weaken its ability to communicate with and persuade others about the strength of our values, the wisdom of our policies and the integrity of our leadership.

The President
of the United States



USIA requested budget authority of \$309.1 million. OMB has allowed \$246.1 million, a reduction of \$63.0 million (20.4%). We believe that the results of a cut of this magnitude would be damaging to the Administration and the nation.

We have searchingly reexamined our request and can find ways to take a substantial cut but one with less drastic effects than the OMB allowance. We propose for USIA a 1977 budget authority of \$274.6 million -- \$34.5 million (11.2%) below our earlier request. To achieve this reduction, we would defer all Voice of America construction in Europe and modernization in the U.S. and forego additional funding for new posts and new program activities.

In addition to the impact we foresee on the controversy about detente, let me mention some of the other implications of a cut of the size proposed by OMB.

It is not possible to take such a slash in USIA resources without sharply cutting the Voice of America. We estimate that perhaps 10 of the 35 languages in which VOA now broadcasts would have to be dropped. Most of these language broadcasts have the backing of determined and militant ethnic constituencies with influential supporters in the Congress and the media. Protest among these constituencies across the country would be severe if it became necessary for us to drop several language services and would ultimately be directed against the Administration.

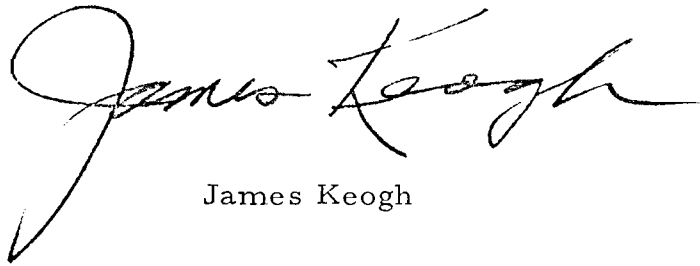
The OMB proposals would also require that USIA cease operations in as many as 20 countries. National priorities dictate that these cuts would be concentrated in Africa and Latin America. This would bring protests from the governments of those countries, from the Black Caucus in Congress and from Black constituencies in the United States. The charge would be made that this large scale exit meant that the Administration did not care what happened in those African countries and did not consider them important enough to merit American attention. The same kind of reaction would greet the closing of a substantial number of our operations in Latin America and would echo through the Spanish-speaking constituencies who are quick to protest that the government ignores them.



The OMB proposal would impound funds already appropriated to construct VOA relay transmitters in the Philippines and deny 1977 funds requested for that purpose. While we accept the fiscal need to defer VOA construction elsewhere, we respectfully submit that aborting the Philippine project would have serious consequences. These transmitters would replace the VOA facility on Okinawa which is scheduled to close in May 1977 as a result of the Reversion Agreement with Japan. The loss of those transmitters, without replacement, would reduce the Voice of America in China and elsewhere in Asia. This result could be seized upon and exploited by critics of the Administration's foreign policy.

For all these reasons, I felt that I must appeal to you for relief from the proposed cut of \$63.0 million (20.4%) in the USIA 1977 budget request. While the amounts we are considering here are relatively minor in the whole U.S. budget, we believe we could make an appropriate contribution to the cause of reducing the growth in Federal spending if our request were cut by the amount we now propose: \$34.5 million (11.2%).

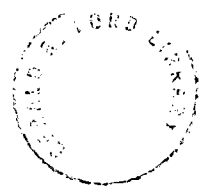
Respectfully,

A handwritten signature in cursive script that reads "James Keogh". The signature is written in dark ink and is positioned above the printed name.

James Keogh



Board for Inter-
national Broad-
casting



BOARD FOR INTERNATIONAL BROADCASTING

Comments

The Board seeks on appeal its original request which would maintain current Radio Free Europe and Radio Liberty operating levels, improve pension plans (~~\$1.2M~~) and replace some old, low-powered transmitters with, high-powered ones (~~\$2.9M~~). In addition to denying these increases, OMB recommends a cut in Radio employment (~~\$1.2M~~) and a reduction because of recent appreciation of the dollar against the deutsche mark, (~~\$4.5M~~). The Board argues there should be no employment cuts beyond the 550 made since 1972 and that the deutsche mark is unlikely to remain depreciated against the dollar.

	Budget Authority (In thousands of dollars)	Outlays (In thousands of dollars)	Full-time permanent employment
1975 actual	49,800	49,858	6
1976 current estimate	64,500	64,499	7
1976 OMB employment ceiling	xxx	xxx	7
Transition quarter current estimate	17,968	17,968	xxx
1977 agency request	62,546	62,546	7
1977 OMB recommendation	<u>52,160</u>	<u>52,160</u>	<u>7</u>
Effect of OMB recommendation on agency request	-10,386	-10,386	-
1978 estimate	56,300	56,300	7





BOARD FOR INTERNATIONAL BROADCASTING

United States of America

Suite 430
1030 Fifteenth Street, N.W.
Washington, DC 20005
202/254-8040

November 11, 1975

Honorable Gerald R. Ford
President of the United States
The White House
Washington, D. C. 20500

Dear Mr. President:

The Board for International Broadcasting is cognizant of the fiscal problems and constraints with which OMB must contend in its effort to stop the spiralling increase in the cost of operations of the U. S. Government. In recognition of this problem, the Board reduced its final 1977 budget request by almost four million dollars, or over 6 percent, when compared to the amount authorized for fiscal 1976. However, the additional cuts of almost 20 percent recommended by OMB, coupled with those generated by the Board, would reduce RFE/RL to an inefficient operating level.

Throughout the Board's Congressional hearings and during Floor debates, repeated references were made to expanding the role of the Radios to broadcast--as would an uncensored local station--to other countries and areas of the world where there is a restriction in the free flow of information. The Board believes that discussion of this nature reflects Congressional support for and understanding of the mission of the two Radios and underlines the necessity for at least maintaining the status quo.

The Radios face some unique problems that arose because of previous operating decisions. These problems must be resolved to insure the Radios' ability to effectively function. They fall into three major areas: antiquated and underpowered transmitter equipment; operational dependence on the valuation of one foreign currency; and labor unrest stemming from a large number of recent terminations and the lack of improvements in pension plans.



1. Funding authority for new transmitter equipment was received in fiscal 1976, marking the first time new hardware was purchased in over a decade. During this same timeframe, jamming of the Radios continued at a highly sophisticated and powerful level in four of the six target countries. Other broadcasters increased their power dramatically with stations which had been on the air with 50 or 100 kilowatts, building 1,000 kilowatt or even larger facilities. In addition to the power increase by other broadcasters, many new countries entered the field with very powerful equipment, thus causing interference due to crowding of the band and power overlap. The funds requested this year (\$2,900,000), coupled with those of last year (\$3,080,000) would provide installations on politically stable soil (West Germany). It should be noted that the situation on the Iberian peninsula, the single overriding point which generated favorable response to the FY 76 request for equipment, has not stabilized. The ability of the Board to increase its transmitter strength in West Germany would strengthen our position, should anything happen at either site in Iberia. Moreover, it would put us in a position to help USIA/VOA if problems arose for them in Morocco or Greece. As it stands now, if there were a loss of facilities in Iberia, there are no adequate facilities available within a reasonable period and the Board would be dependent upon the use of USIA/VOA facilities for an interminable length of time.

2. The Deutsche Mark/Dollar relationship of 2.6742 to 1 used for our budget request appears extremely optimistic. As you are aware, and as has been pointed out during the last few years of Congressional testimony, the Radios are uniquely vulnerable to currency fluctuations, as more than 70 percent of their expenditures are in Deutsche Mark. The average for the DM/\$ ratio so far this fiscal year has been 2.55 to 1, with the average for last year being 2.45 to 1.

It would be very stabilizing and helpful to the operations of the Radios to have the legislation specify the level actually authorized. Such language was incorporated in the House International Relations Committee Report 94-329 in a letter from Comptroller General Staats to Congressman Slack suggesting that a specific reserve to cover possible currency devaluation would insure a stable operating level and allow management to concentrate on management without worrying about currency fluctuations. There still seems to be some reservation among Congressional staff members as to whether, in fact, the wording of our current legislation allows for authorization of a supplemental appropriation request to cover currency devaluation. There is general



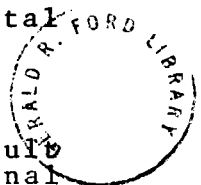
concern among Radio management and our Board about this operational stability in the event there is a currency decline, and it would be most helpful to have this very major point clarified.

3 Almost 80% of the Radios' operational costs are related to staff salaries and benefits. Consequently, any budget cuts would result in further reductions in staff. During the last three years, more than 550 people have been terminated by the two organizations, nearly all at the middle or lower levels--a reduction in staff of 25 percent. The last round, in June 1975, was accompanied by a near-strike and continuing litigation.

Staff reductions of this magnitude cannot and should not be continued within an organization that is not only expected to maintain the level of its mission but has received funding authority to increase programming.

A sizeable increase in funding pension costs was approved in fiscal 76 to allow the Radios to make minimum compliance with the pension reform legislation covered in ERISA (Employee Retirement Income Security Act). The funding level requirements of this legislation have put an increased burden on the financial resources of the Radios which is being spread over the next few years. The present pension plans in force at both Radios have not been upgraded in line with the rest of private industry in over five years. The modifications in the pension plans requested in the fiscal 1977 budget presentation are of a "catch-up" nature, allowing the Radios' plans to become more in line with similar organizations and private industry as a whole.


In closing, I would like to make a short comment about the Board's own budget. With the steady inflationary rise in all areas, even a small cut will cause more problems than one might anticipate. In order to fund the October legislated pay raise, the Board has been required to request that its budget authority of \$400,000 for fiscal 1976 be increased by \$10,000. We are aware that our office rental increased by 15% to 20%; the service support contract with GSA has increased by 10% to 15% and we can assume inflationary increases in telephone, air travel, etc., all of which makes even a minor budget reduction difficult to absorb. It should be noted that the House International Relations Committee Report covering the authorizing legislation for Fiscal 1976 called for an increase in the Board's oversight responsibilities.

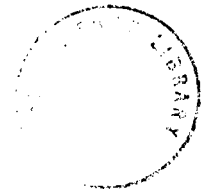


The Board believes that, in light of present circumstances, the budget request for fiscal 1977 as presented to OMB merits approval.

With warm regards,

Sincerely yours,


David M. Abshire
Chairman



Overseas Private
Investment
Corporation

OVERSEAS PRIVATE INVESTMENT CORPORATION

OMB

Comments

Agency requested personnel ceiling increases of 9 in 1976 and 14 in 1977 to expand and reorient its program. Agency requires no budget authority and outlays are usually negative. OMB mark would allow no personnel increases. Agency has appealed OMB mark. (Narrative attached)

	Budget authority (In thousands of dollars)	Outlays (In thousands of dollars)	Full-time permanent employment
1975 actual.....	-	+ 12,307	120
1976 current estimate.....	-	- 24,574	117
1976 OMB employment ceiling....	xxxx	xxxx	130
Transition quarter current estimate.....	-	- 2,751	xx
1977 agency request.....	-	- 35,214	153
1977 OMB recommendation.....	-	- 35,690	130
Effect of OMB recommendation on agency request.....	-	(-) 476	(-) 23
1978 estimate.....	-	- 41,220	130



OPIC Personnel Increase

The Overseas Private Investment Corporation provides:

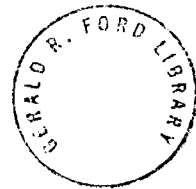
- insurance to U.S. investors in developing countries covering losses from currency inconvertibility, expropriation, and war; and,
- direct loans and loan guarantees to encourage U.S. investment under its finance program.

Congress has mandated that 1) the insurance program be shifted to private-sector auspices with OPIC serving only as a reinsurer; and, 2) the finance program be shifted to another agency after 1979 while concentrating more on small U.S. businesses and the poorest developing countries. In requesting increased positions, OPIC primarily cites the desire to increase the size of the finance program in order to give it a fairer test of its potential. OMB doubts that a larger program is necessary to permit evaluation of its effectiveness. In fact, OMB questions whether OPIC programs should continue at all and plans a study of them during the next year. For the interim, the agency has 13 vacant positions which can be filled to meet any priority workload increases.

Agency Request: A ceiling increase of 9 positions for 1976 and an increase of 14 for 1977.

OMB Recommendation: No ceiling increase for 1976 or 1977.





Arms Control and
Disarmament
Agency

ARMS CONTROL AND DISARMAMENT AGENCY

Comments

Agency requested increases primarily for additional research contracts on safeguards applications. OMB recommends the expanded safeguards research, but not other marginal research and personnel increases. Agency will not appeal OMB mark.

	Budget Authority (In thousands of dollars)	Outlays	Full-time permanent employment
1975 actual	9,410	9,726	167
1976 current estimate	10,500	10,200	175
1976 OMB employment ceiling	XXX	XXX	167
Transition quarter current estimate	2,700	2,800	XX
1977 agency request	11,900	11,300	178
1977 OMB recommendation ...	<u>11,645</u>	<u>11,100</u>	<u>175</u>
Effect of OMB recommendation on agency request	-255	-200	-3
1978 estimate	11,900	11,300	175





Office of the Special
Representative for
Trade Negotiations

Special Representative for Trade Negotiations

OK

Comments

Agency requested 17 additional personnel to carry out provisions of the Trade Act of 1974. OMB mark would allow a 1977 ceiling increase of 15 persons. Reductions are expected after trade negotiations terminate. Agency agrees to OMB mark.

	Budget authority (In thousands of dollars)	Outlays (In thousands of dollars)	Full-time permanent employment
1975 actual.....	1,850	1,471	45
1976 current estimate.....	1,980	1,971	45
1976 OMB employment ceiling.....	xxxx	xxxx	45
Transition quarter current estimate.....	495	545	xx
1977 agency request.....	2,650	2,490	62
1977 OMB recommendation.....	<u>2,500</u>	<u>2,400</u>	<u>60</u>
Effect of OMB recommendation on agency request.....	- 150	- 90	-2
1978 estimate.....	2,500	2,500	60



Council on Inter-
national Economic
Policy

Council on International Economic Policy

BK

Comments

Agency requested funds to continue programs at last year's level. OMB mark would reduce personnel ceiling by 1 in 1976 and 2 in 1977. BA and outlays at requested levels would allow Agency to absorb 1975 pay cost increase for 1977. Agency agrees to OMB mark.

	Budget authority (In thousands of dollars)	Outlays (In thousands of dollars)	Full-time permanent employment
1975 actual.....	1,600	1,379	28
1976 current estimate.....	1,650	1,724	30
1976 OMB employment ceiling.....	xx	xx	29
Transition quarter current estimate.....	412	520	xx
1977 agency request.....	1,670	1,452	30
1977 OMB recommendation.....	<u>1,670</u>	<u>1,452</u>	<u>28</u>
Effect of OMB recommendation on agency request.....	0	0	-2
1978 estimate.....	1,670	1,670	28



Inter-American
Foundation

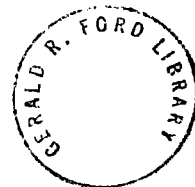
INTER-AMERICAN FOUNDATION

OK

Comments

Agency has proposed increased reliance on Latin American currencies, generated by earlier U.S. assistance, to finance overseas program costs. This allows program growth within a dollar budget of \$7.0 million in 1976 (\$3 million below the budget request) and 1977. OMB mark reduces 1977 personnel ceiling by 4. Agency concurs in OMB mark.

	Program Limitation (In thousands of dollars)	Outlays (In thousands of dollars)	Full-time permanent employment
1975 actual	6,497	7,732	62
1976 current estimate	7,000	7,940	71
1976 OMB employment ceiling	xxx	xxx	74
Transition quarter current estimate	1,750	1,601	74
1977 agency request	7,000	8,159	74
1977 OMB recommendation	<u>6,936</u>	<u>8,098</u>	<u>70</u>
Effect of OMB recommendation on agency request	-64	-61	-4
1978 estimate	6,936	7,224	70



Foreign Claims
Settlement
Commission

FOREIGN CLAIMS SETTLEMENT COMMISSION

Decrease in 1977 reflects completion of Micronesian and Hungarian claims programs. The reduced staff will conduct residual activities of past programs, and compile an overall index digest of Commission decisions. Current negotiations with East Germany and Czechoslovakia may result in additional activity.

OK

	Budget authority (In thousands of dollars)	Outlays	Full-time permanent employment
1975 actual	1,260	1,271	62
1976 current estimate	1,400	1,673	67
1976 OMB employment ceiling	XXX	XXX	67
Transition quarter current estimate	375	630	XX
1977 agency request	775	870	19
1977 OMB recommendation	775	870	19
Effect of OMB recommendation on agency request	XXX	XXX	XXX
1978 estimate	540	685	16



Selective
Service
System

SELECTIVE SERVICE SYSTEM

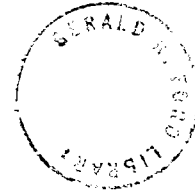
Comments

Agency is requesting \$26 million annually to maintain a military mobilization manpower planning capability and to conduct a one-day registration each year. OMB mark would disestablish the agency and require the Department of Defense to assume the planning function within available resources. Emerging from a similar posture just prior to World War II, the military services were able to induct or recruit men at rates that exceed those required under current planning contingencies.

	Budget authority (In thousands of dollars)	Outlays (In thousands of dollars)	Full-time permanent employment
1975 Actual	45,000	48,465	2,121
1976 current estimate	37,500	39,500	1,325
1976 OMB employment ceiling	xxx	xxx	1,707
Transition quarter current estimate	8,300	9,000	1,325
1977 agency request	27,200	27,000	1,094
1977 OMB recommendation	<u>0</u>	<u>0</u>	<u>0</u>
Effect of OMB recommendation on agency request.....	-27,200	-27,000	-1,094
1978 estimate	0	0	0



Issue Paper
DEPARTMENT OF DEFENSE
1977 Budget
Selective Service System



Statement of Issue

Should the Selective Service System be disestablished?

Background

Last year you directed major program adjustments in the System. Local board operations are being phased down in 1976 while a new standby draft system is designed and tested and an annual registration procedure is evaluated.

The new system is totally dependent upon an annual registration for young men born in a given year. This annual registration will provide the data necessary for a central computerized record of registrants from which initial mobilization requirements would be met basically by accelerating the induction of non-resisting draftees.

The registration and its related services to registrants make up the major part of the 1977 budget request calling for \$27 million and 1,100 people. The steady state costs of maintaining the standby system would be similar and are considerably higher than an OMB estimate last year of \$18 million and 400 people.

The new system represented a middle ground decision by you last year between the Selective Service System recommendation for active operation of local boards and an OMB recommendation for no registration and retention of only a planning function. The middle ground position was supported by DOD as the minimum level to meet its mobilization requirements.

Alternatives


#1. Continue planning for a once a year registration as part of a standby draft system. (This is consistent with your decision of last year and is the initial agency request.)

#2. Eliminate pre-registration but retain the Selective Service System in a deep standby as a separate agency with planning and reserve training functions only. Minor changes in law would be required. (This is Director Pepitone's preference and is acceptable to DOD.)

#3. Eliminate pre-registration and the Selective Service System as an independent agency and assign residual planning and reserve training functions to the GSA Federal Preparedness Agency. Major changes in law would be required. (This is also acceptable to DOD.)

#4. Abolish the Selective Service System completely and require DOD to absorb residual mobilization planning functions within existing resources. Major changes in law would be required. (OMB Recommendation)

Analysis



<u>Budget Authority/Outlays</u> (\$ Millions)	1975		1976		1976 Jul 1- Sep 30		1977		1978		1979		Alternative Employment Levels <u>1977</u>
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	
	Alternative #1	45	48	38	40	8	9	27	27	26	26	26	26
Alternative #2	45	48	38	40	8	9	8	8	8	8	8	8	200
Alternative #3	45	48	38	40	8	9	6	6	6	6	6	6	100
Alternative #4	45	48	38	40	8	9	0	0	0	0	0	0	0

The Selective Service System is well along in planning a one day nationwide registration at over 50,000 temporary registration sites on March 31, 1976, utilizing over 100,000 uncompensated volunteer registrars. A major publicity campaign with nationwide advertising would precede the registration and provision is made for a make-up registration. The Advertising Council has agreed to undertake this campaign and a contract has been signed. National support has been pledged by such organizations as the American Legion and VFW. Director Pepitone asserts that other alternatives were carefully studied, including a 2-3 day plan and a registration-by-mail plan. He is convinced that the one day registration will succeed and is by far the best approach.

DOD and OMB believe that a one-day registration is not a good idea, whose implementation would jeopardize the standby draft system, for the following reasons:

- Requiring 2 million young men to appear at a designated place on a designated day is a major Government intrusion for a purpose that may not be too clear to the individuals involved.
- One day could be inconvenient to registrants, could be adversely affected by weather in local situations and could result in long lines of impatient young people at some sites with a high potential for disturbance.
- A poor turnout could result in adverse publicity with headlines focusing on the number who failed to register.
- The high visibility could also awaken latent hostility toward the Government and foster counter demonstrations, particularly at the large universities, where thousands of young men will have to register.

Because of these reservations, the case for a standby draft system with pre-registration has been reevaluated. DOD mobilization requirements for recruits and trained soldiers under worst case assumptions involving major combat in Europe lasting beyond 90 days were compared with actual World War II experience in which there was no pre-registration and the Selective Service emerged from a War Department planning activity. It was determined that while pre-registration provides a 30-45 day lead time in delivering draftees, the extensive use of volunteers in the early days of a major conflict can be anticipated to meet stated DOD requirements.

There would appear to be relatively little national security risk in moving to a deeper standby system and eliminating the annual registration. This view is consistent with the likelihood that any major war would be preceded by a period of growing world tension which might in itself require reactivation of Selective Service.

As a related matter, the Selective Service System is deeply involved in operating the alternate Service phase of the clemency program. This program must continue until those persons promised clemency in exchange for alternate service have had the opportunity to perform their service. Residual activities concerning this program will continue in FY 1977 and would need to be transferred elsewhere, probably to the Labor Department, under Alternative #4. Actual workload involved at that time will be minimal.

Agency Request: Alternative #1. During the 1976 budget deliberations, both the Senate and the House Appropriations Committees requested the Armed Services Committees to review the need for a Selective Service System. It appears that hearings will be held early next year by the Armed Services Committees and it would be well to defer action until after those hearings.

DOD Recommendation: Alternative #2 or #3. Some planning is essential to assure an orderly mobilization if one is ever required. There was a significant amount of planning that preceded the successful World War II reinstatement of the draft.

OMB Recommendation: Alternative #4. Most Americans believe the Selective Service System is a prime example of a Government agency clinging to life when its mission is gone. There is a more than even chance that the Congress will virtually eliminate the agency next year. By taking the initiative now, we can demonstrate the seriousness of our purpose in cutting back unnecessary Federal Government activity.



American Battle
Monuments
Commission

OK

AMERICAN BATTLE MONUMENTS COMMISSION

Comments

Agency requested an increased level of maintenance and two new construction projects. OMB mark deferred the two projects and held maintenance to last year's level. Agency has accepted OMB mark.

	Budget authority (In thousands of dollars)	Outlays	Full-time permanent employment
1975 actual	4,808	4,756	391
1976 current estimate	5,405	5,285	392
1976 OMB employment ceiling	---	---	392
Transition quarter current estimate	1,457	1,407	--
1977 agency request	6,740	6,314	392
1977 OMB recommendation	5,855	5,814	392
Effect of OMB recommendation on agency request.	-885	-500	--
1978 estimate	5,855	5,800	392



U.S. Soldiers'
and Airmen's
Home

U. S. SOLDIERS' AND AIRMEN'S HOME

OK



Comments

The Home's request reflects a level program of 2600 members but includes budgeting for future inflation. The OMB mark would preclude budgeting for inflation. The Home accepts the OMB mark.

	Budget authority (in thousands of dollars)	Outlays (in thousands of dollars)	Full-time permanent employment
1975 actual	15,224	15,580	943
1976 current estimate . .	15,520	15,054	981
1976 OMB employment ceiling	---	---	1014
Transition quarter current estimate	3,869	3,776	---
1977 agency request	15,453	15,321	966
1977 OMB recommendation .	<u>15,228</u>	<u>15,180</u>	<u>966</u>
Effect of OMB recommendation on agency request	-225	-141	0
1978 estimate	15,228	15,228	966

National
Security
Council

NATIONAL SECURITY COUNCIL

Comments

Agency requested 7 new positions for activities required by the Freedom of Information Act and Declassification Order. It also requested increased funding for contract research, and for overhead and travel costs. The OMB mark would allow additional part-time/temporary personnel to be hired for FOI/Declassification workload but provides no increase in permanent positions. It also allows modest funding increases for overhead and travel, and partial restoration of previous contract funding levels. The Agency has agreed to the OMB recommendation.

	Budget authority (In thousands of dollars)	Outlays (In thousands of dollars)	Full-time permanent employment
1975 actual.....	2,980	2,621	72
1976 current estimate.....	3,030	3,120	72
1976 OMB employment ceiling.....	xxxx	xxxx	72
Transition quarter current estimate.....	650	780	xx
1977 agency request.....	3,480	3,550	79
1977 OMB recommendation.....	<u>3,210</u>	<u>3,280</u>	<u>72</u>
Effect of OMB recommendation on agency request.....	-270	-270	-7
1978 estimate.....	3,210	3,210	72

